

FLAGSTAFF ARIZONA

They don't make towns like this anymore!

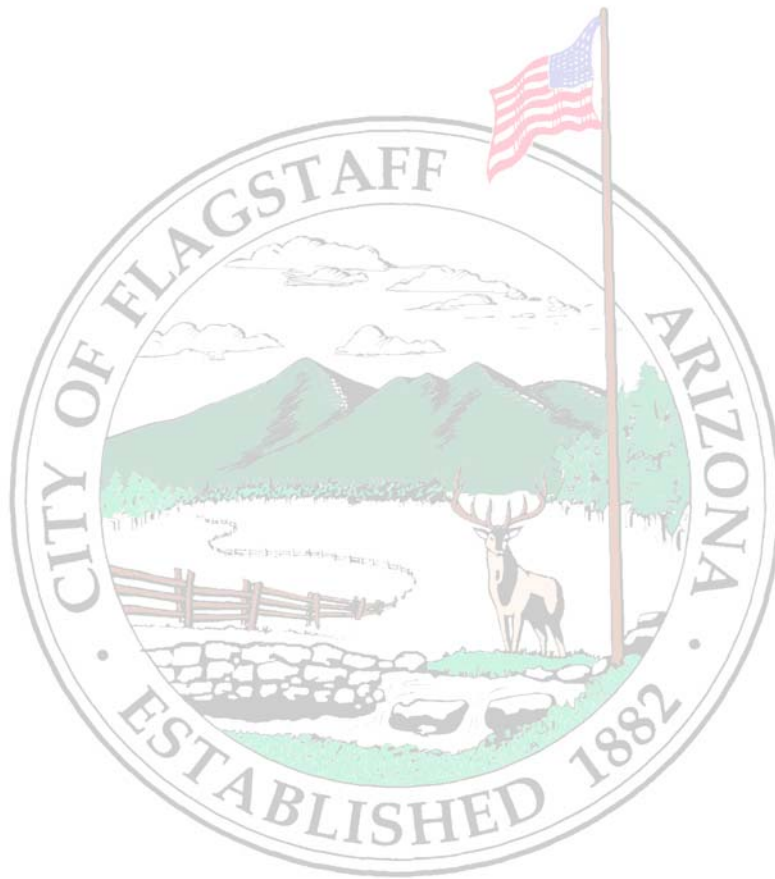
City of Flagstaff



Comprehensive

Annual Financial Report

Fiscal Year Ended June 30, 2003



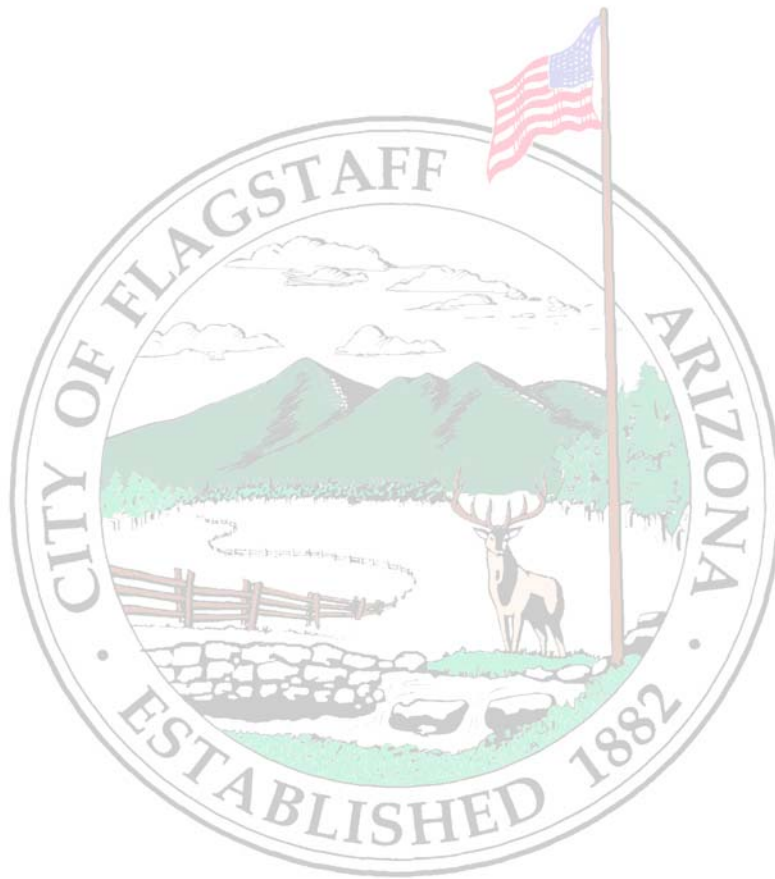
Comprehensive Annual Financial Report

For Fiscal Year Ended
June 30, 2003

City of Flagstaff, Arizona



Prepared By:
Management Services Department
Finance Division



City of Flagstaff

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2003

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City of Flagstaff

December 19, 2003

Citizens, Honorable Mayor, and Council of the City of Flagstaff, Arizona:

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) for the City of Flagstaff, Arizona (City) for the fiscal year ended June 30, 2003, as required by Article VI, Section 5 of the City Charter. The report was prepared by the City's Finance Division in accordance with accounting principles generally accepted in the United States of America.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To provide a reasonable basis for making these representations, the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse, and to provide reasonable rather than absolute assurance that the financial statements will be free of material misstatement. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City was incorporated in 1894, under the provisions of Article 13, Sections 1 through 6 of the Constitution of Arizona and Title 9 of the Arizona Revised Statutes. The City operates under a Council-Manager form of government. All funds and entities related to the City that are controlled by the Mayor and Council are included in the basic financial statements. This control is determined on the basis of, among other factors, budget adoption, taxing authority, and the ability to issue debt either collateralized by revenues or as general obligation of the City. The funds and entities provide a full range of services including General Government, Police, Fire, Environmental Services, Transportation, Library, Parks and Recreation, Airport, and Water and Sewer.

The City Charter requires an annual independent audit. The City engaged Nordstrom & Associates, PC to express an opinion on the financial statements based on their audit. The goal of the independent audit was to provide reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor's report is presented as the first component of the financial section of this report. Nordstrom & Associates, PC also audited the City's federal financial assistance program, complying with the provisions of the Single Audit Act and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Effective with this report, the City implemented a significant change in governmental financial reporting under Governmental Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. More information about this change can be found in the Management's Discussion and Analysis (MD&A) beginning on page 15 and also discussed in the notes to the financial statements. This transmittal letter is designed to complement the MD&A and should be read in conjunction with it.

The CAFR is presented in seven sections: introductory, financial, management's discussion and analysis, basic financial statements, combining statements, supplemental information and statistical. The introductory section includes a list of principal officials, the City's organizational chart, and this transmittal letter. The financial section includes the independent auditor's report. The Management's Discussion and Analysis section provides an overview by the same name. The basic financial statements include the statements and footnotes. The combining financial statements include the non-major governmental fund statements. Supplemental information includes a capital asset overview. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

This report includes financial statements on both a government-wide and fund basis for the City (the primary government), as well as its component units. A component unit is a separate legal entity that is included in the reporting entity due to the significance of its financial or operational relationships with the City. Additional information concerning the City's component unit is provided in the notes to the financial statements. The City provides a full range of services including, police and fire protection, sanitation services, the construction and maintenance of highways, streets, and infrastructure, recreational activities and cultural events, and the operation of a water and sewer utility.

Local Economy. Our nation, the State of Arizona, and the City are facing one of the most challenging economic periods in years. Although this recession may be milder than the ones in the 1970's and 1980's, it is widespread across many industries. The statewide impact hit home in Flagstaff as we saw significant job loss at Northern Arizona University (NAU), in response to declines in state income tax receipts and sales taxes. Additional workforce reduction occurred at the School district, within the City and within the County. This not only translated to economic losses, but loss of enrollment at the Unified School district, and loss of faculty that can act as an engine for economic development. As a city with a large government employment base that typically weathers well in a recession, this was a new experience. Despite a turnaround at the state level, the City continues to experience a lower growth rate in sales tax receipts than the rest of the state. Gross retail sales grew by 5.6%, however this was fueled by deep discounts in the auto industry and low interest rates driving both commercial and residential construction activity, not necessarily sustainable activities.

In anticipation of continued slower growth the City instituted a hiring chill early in the year, and developed a plan of position eliminations and revenue growth to deal with anticipated shortfalls in the next two years. In order to keep the local economy moving, the Council directed staff to keep moving forward on the sizable capital program the City had proposed. In addition, a heightened level of activity in redevelopment also is moving forward to stimulate the local conditions. Although staff experienced increased mandatory contributions to the state retirement system and increased health costs there was no provision for a market increase in the next budget year. The FY 2003-04 and FY 2004-05 are balanced with these actions. The remaining wild card is that the State has not dealt with all the economic realities in balancing the future budgets and the maintenance of state shared revenue share continues to be a concern.

Long-Term Financial Planning. Planning for the future has always been important to the City. The tools to accomplish this continue to progress. How much care and effort is applied to planning for future growth will determine not only the quality of our community, but how we will pay for needed services. This is why future budgets are focused on

planning in keeping with the Council's ten goals, i.e., fiscal health, public safety, affordable housing, capital improvements, customer service, planning for growth, collaboration, quality of life, organizational support, and economic development/redevelopment.

The Rio de Flag flood control project is one aspect of the budget that meets many of these goals and protects the community in the future. This is a joint project with the Army Corps of Engineers to improve the channel from the outskirts of town, redirect the flow, and provide for protection from a 100 year event. This project will take the downtown and the NAU north campus out of the flood plain. This will greatly enhance the opportunities for redevelopment once the properties are no longer encumbered with flood plain restrictions. In anticipation the City is conducting a Southside study to contemplate an organized plan for the neighborhood, NAU, and the business district after the project.

Voters successfully passed the Flagstaff Area regional land use and transportation plan in May 2002. Key elements include land use, growth management, transportation, open space and parks, water resources, community character and design, natural and cultural resources, community facilities and services, and public safety. The plan was a joint effort of the City and the County covering 520 square miles. A regional citizens task force was instrumental in developing the guiding policies of the plan. The unique element of the plan is that it includes urban and rural growth boundaries, required minimum densities in the City limits, and the surrounding state and federal lands are protected by designation for open space. This regional plan will shape the way the City develops in the future.

The citizens also passed a twenty-year sales tax in 2000 to support transportation improvements in and around the City. Transportation is a key element in meeting many of the council goals, including quality of life, public safety, economic development/redevelopment, and collaboration. Efforts include the infrastructure development in the vicinity of the Mall for improved traffic circulation in the neighborhood, and enhancement of the industrial area access to the interstate, all which is intended to coincide with the expansion of the Mall. Part of this project also includes the partnership with the State Department of Transportation on the reconstruction of the traffic interchange adjacent to the Mall project area.

Budgetary System. The City also maintains budgetary controls to ensure compliance with budgetary and legal provisions embodied in the annual appropriated budget approved by the City Council. In addition to maintaining budgetary control via a formal appropriation, the City maintains an encumbrance accounting system. Encumbrances are made against appropriations upon the release of a purchase order. Encumbered appropriations are reappropriated at the end of each fiscal year.

The City is subject to both legal and expenditure limitations as set out in the State Constitution. The City cannot adopt a budget that exceeds the expenditure limitation determined annually by the State of Arizona's Economic Estimates Commission. This limitation is based on 1979-80 actual expenditures, adjusted to reflect interim population and cost of living changes. Certain items are specifically exempted, including bond sale proceeds, debt service payments and other long-term obligations, interest earnings, a portion of Highway User Tax revenues, Federal and State grants, and monies received pursuant to intergovernmental agreements. On March 1, 1988, as provided by State statute, the voters of Flagstaff approved a permanent base adjustment of \$1,900,000 to the 1979-80 base amount used in determining the annual expenditure limitation. The permanent increase was for the expenditure of the newly authorized Bed, Board and Booze Tax which was also approved in the March, 1988 election.

The City's budget process involves input from Division heads, Department heads, Administration, the City Council, and the public. Annual budgets are adopted for all funds by department and division with the legal level of control for State budgetary purposes at the department level. Throughout the year budgetary control is maintained through

the use of monthly management reports that compare actual or encumbered expenditures and revenues against the budgeted amounts. These reports are utilized to continuously monitor and manage budgets throughout the year.

Cash Management. The City's investment policy is to invest all temporarily idle cash in investments authorized by City resolution or State statute at the highest available interest rate while emphasizing safety of principal and liquidity. Excess funds were invested in the State Treasurer's Local Government Investment Pool (LGIP) and in obligations of the U.S. Treasury and its agencies, demand deposits, and repurchase agreements.

Risk Management. The City maintains a self-insurance program for liability claims, unemployment compensation, health and workers' compensation. In addition, the City's Risk Management Division employs various risk control techniques, such as employee accident prevention training and inspection of City property and facilities, to minimize accident-related losses.

Certificate of Achievement. The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended June 30, 2002. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such a CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City has received a Certificate of Achievement for the last 9 consecutive years. We believe our current report continues to conform to Certificate of Achievement program requirements, and we are submitting it to GFOA.

The City also received the GFOA's award for Distinguished Budget Presentation for our 2002-2003 annual budget. In order to qualify for the Distinguished Budget Presentation award, the City's budget document was judged to be proficient as a Policy Document, a Financial Plan, an Operation Guide, and as a Communication Device.

Acknowledgments. A special word of appreciation is due to Barbara Goodrich, Finance Budget Manager and to the entire Accounting staff who prepared this CAFR. As an organization we would be remiss to not also personally recognize Maryellen Pugh, CPA for tireless efforts in directing the GASB 34 statement conversion.

Acknowledgment should also be made for the interest and support received from members of the Mayor and Council, the office of the City Manager, and the willing cooperation of the other operating and staff departments of the City. The cooperative assistance of our independent auditor, Nordstrom and Associates, also contributed significantly to this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Mary Jo Jenkins', with a long horizontal line extending to the right.

Mary Jo Jenkins
Management Services Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Flagstaff,
Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

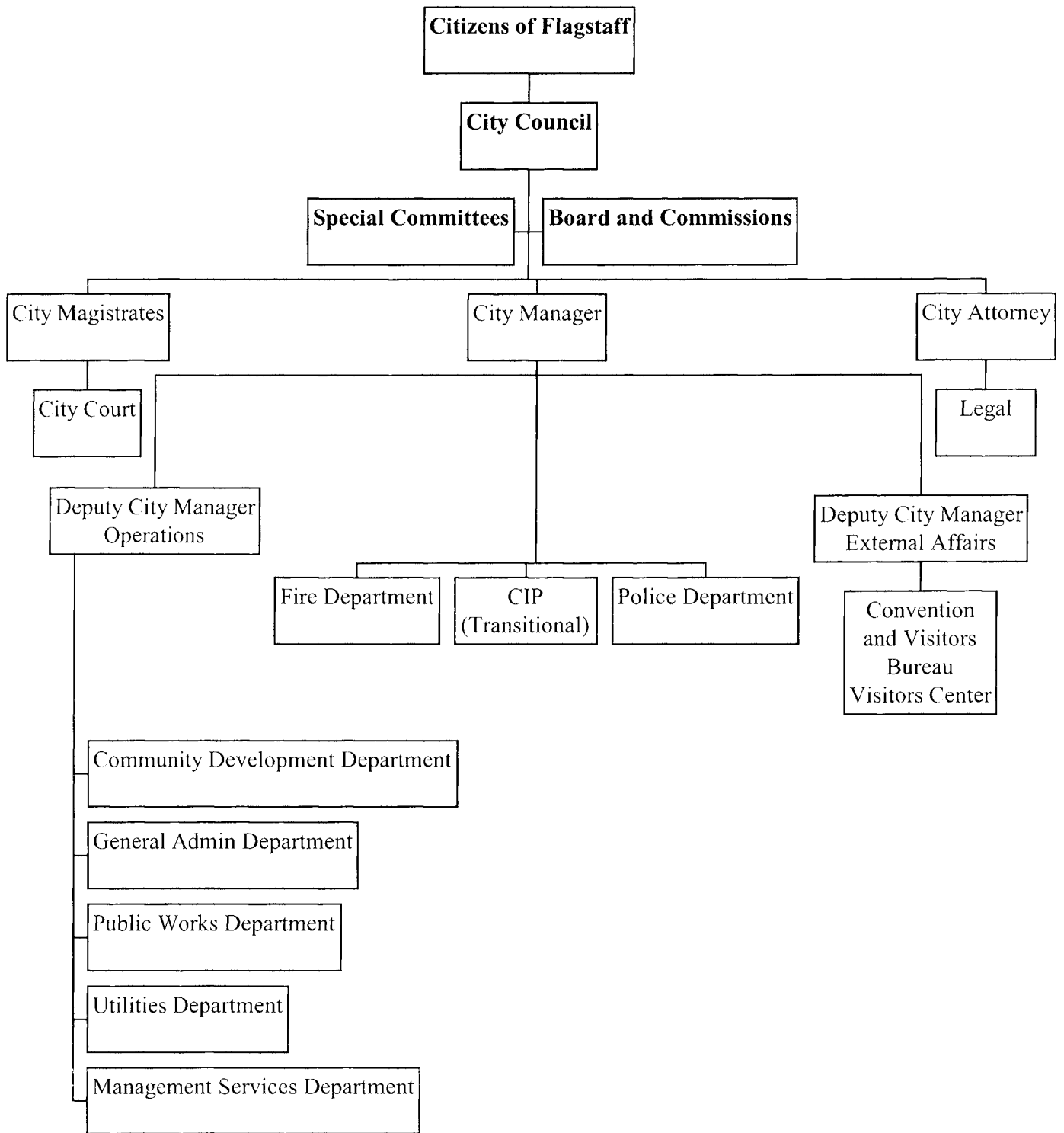
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

City of Flagstaff



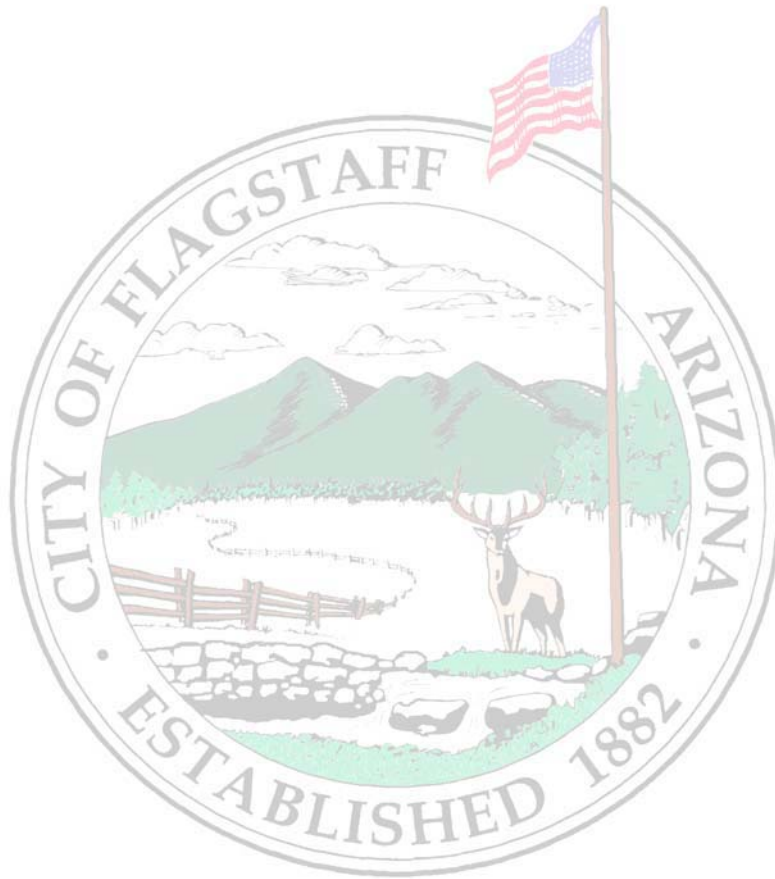
City of Flagstaff, Arizona
List of Elected and Appointed Officials
June 30, 2003

Elected Officials

Mayor	Joseph C. Donaldson
Vice Mayor	Libby Silva
Councilmember	Art Babbott
Councilmember	Karen K. Cooper
Councilmember	Joseph P. Haughey
Councilmember	Kara M. Kelty
Councilmember	Al White

Appointed Officials

City Manager	David W. Wilcox
City Attorney	Joseph Bertoldo
City Treasurer	Mary Jo Jenkins
City Clerk	Elizabeth Burke



Bruce J. Nordstrom, CPA

Godfrey C. Loper, Jr., CPA

Marjorie T. McClanahan, CPA

Timothy D. Hansen, CPA



MEMBERS

American Institute of
Certified Public Accountants

Arizona Society of Certified
Public Accountants

INDEPENDENT AUDITOR'S REPORT

**Honorable Mayor and Members of the City Council
City of Flagstaff, Arizona**

We have audited the accompanying financial statements of the governmental activities, business-type activities, discretely presented component unit, each major fund, and aggregate remaining fund information of City of Flagstaff, Arizona (the City), as of and for the year ended June 30, 2003, as listed in the table of contents, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Greater Flagstaff Economic Council, a discretely presented component unit of the City. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the financial statements insofar as it relates to the amounts included for Greater Flagstaff Economic Council, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, discretely presented component unit, each major fund, and aggregate remaining fund information of City of Flagstaff, Arizona, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparison for the general, highway user, transportation and BBB funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I to the basic financial statements, City of Flagstaff adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* effective July 1, 2002.

The management’s discussion and analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The combining and individual fund statements and schedules and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The information included in the introductory and statistical sections listed in the table of contents has not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we express no opinion on such information.

In accordance with *Government Auditing Standards* we have issued our report dated September 30, 2003 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Nordstrom & Associates, P.C.

Flagstaff, Arizona
September 30, 2003

MANAGEMENT DISCUSSION AND ANALYSIS

As management of the City of Flagstaff (the City), we offer readers of the City's financials statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages iii –vi of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$293.6 million (net assets). Of this amount \$55.0 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$26.1 million during the fiscal year. This increase is related to the recognition of capital net assets to governmental funds as required by GASB 34.
- As of June 30, 2003, the City's governmental funds reported combined ending fund balances of \$44.6 million, a decrease of \$1.3 million in comparison with the prior fiscal year. Approximately 97% of this total amount (\$43.5 million) is unreserved fund balance available for spending at the government's discretion.
- As of June 30, 2003, total unreserved fund balance for the general fund was \$21.8 million, or 64% of total general fund expenditures (\$34.3 million)
- As of June 30, 2003, the City's proprietary funds reported combined total net assets of \$199.2 million, and total unrestricted net assets of \$20.9 million. \$23.3 million of the unrestricted net assets are in the Water and Wastewater Fund.
- The City's total long-term debt decreased by \$407,900 (0.7%) during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The **statement of net assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as revenues pertaining to uncollected taxes and earned but unused vacation leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all

or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include Police, Fire, Community Development, Parks and Recreation, City Council, City Manager, City Attorney, Municipal Courts, Human Resources, Risk Management, Information Services, Library, and Economic Development. The business-type activities of the City include Water and Wastewater, Airport, and Environmental Services operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate entity for which the City is financially accountable. Financial information for this component unit, the Greater Flagstaff Economic Council (GFEC) is reported separately from the financial information presented for the primary government itself. The Municipal Property Corporation, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 15–17 of this report.

Fund financial statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: **governmental** funds, **proprietary** funds, and **fiduciary** funds.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual government funds organized according to their type (special revenue and debt service). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, Highway User Revenue fund, Transportation fund, and the BBB fund which are all considered to be major funds. Data from the remaining governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General fund, Special Revenue funds, General Obligation Debt Service fund, and Enterprise funds. A budgetary comparison statement has been provided for the General and other major funds to demonstrate compliance with the respective budgets.

The basic governmental fund financial statements can be found on pages 18–28 of this report.

Proprietary funds: Proprietary funds are generally used to account for services for which the City charges customers – either outside customers, or departments of the City. Proprietary funds provide the same type of information shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise funds** are used to report the same function presented as business-type activities in the government-wide financial statements. The City used enterprise funds to account for its Water and Wastewater, the Airport, and Environmental Services which includes solid waste collection. All enterprise funds are considered to be major funds of the City.
- **Internal Service funds** are used to report activities that provide supplies and services for certain City programs and activities. The City uses an internal service fund to account for its workers compensation, health insurance, other risk related activity including claims adjustment, and general liability and property insurance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service fund is combined into a single, aggregated presentation in the proprietary fund statements. Individual fund data for the internal service fund is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 30–37 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 38–39 of this report.

Notes to the Financial Statements

The notes to the financial statement provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 41–76 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's capital asset activity. Required supplementary information can be found on page 84–86 of this report.

Combining statements

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements.

GOVERNMENT WIDE STATEMENTS FINANCIAL ANALYSIS

This is the first year that the City has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements - and Management's Discussion and Analysis (MD&A) - for State and Local Governments*. Because this reporting model changes significantly both the recording and presentation of the financial data, the City has not restated prior fiscal years for the purposes of providing comparative information for the MD&A. In future years when prior-year information is available, a comparative analysis of government-wide data will be included in this report.

Net Assets June 30, 2003

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 61,699,938	\$ 43,370,363	\$ 105,070,301
Capital assets	73,208,739	206,668,149	279,876,888
Total assets	134,908,677	250,038,512	384,947,189
Long-term liabilities	29,766,987	33,451,308	63,218,295
Other liabilities	10,774,823	17,346,079	28,120,902
Total liabilities	40,541,810	50,797,387	91,339,197
Invested in capital assets, net of related debt	45,410,334	173,369,441	218,779,775
Restricted	14,778,358	5,013,627	19,791,985
Unrestricted	34,178,175	20,858,057	55,036,232
Total net assets	\$ 94,366,867	\$ 199,241,125	\$ 293,607,992

Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$293.6 million as of June 30, 2003.

Of the City's net assets, 74.5% reflects its investment of \$218.8 million in capital assets (e.g. land, buildings, and equipment), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the City's net assets, \$19.8 million (6.8%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$55.0 million (18.7%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for the business-type activities.

Analysis of Change in Net Assets

The City's net assets increased by \$26.1 million during the current fiscal year. These increases are explained in the government and business-type activities discussion to follow.

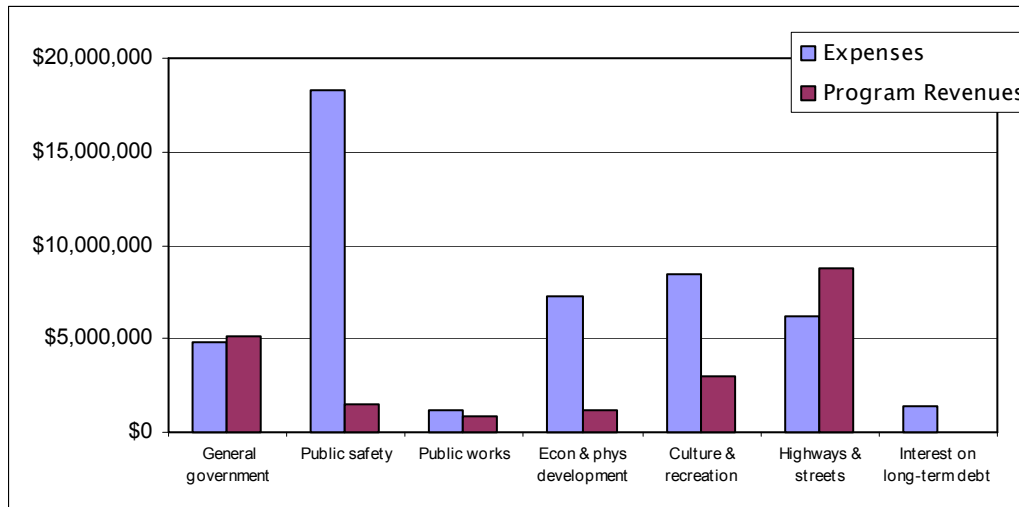
Changes in Net Assets June 30, 2003			
	Governmental Activities	Business-type Activities	Total
Revenues			
Program Revenues:			
Charges for services	\$ 7,407,127	\$ 25,143,205	\$ 32,550,332
Operating grants and contributions	3,428,440	382,239	3,810,679
Capital grants and contributions	9,646,122	9,460,796	19,106,918
General Revenues:			
Property taxes	8,010,293	–	8,010,293
Sales taxes	23,805,566	–	23,805,566
State shared taxes	12,073,108	–	12,073,108
Unrestricted investment earnings	383,111	106,733	489,844
Other	952,308	23,675	975,983
Total revenues	65,706,075	35,116,648	100,822,723
Expenses			
General government	4,840,896	–	4,840,896
Public safety	18,270,468	–	18,270,468
Public works	1,169,302	–	1,169,302
Economic and physical development	7,272,115	–	7,272,115
Culture and recreation	8,467,575	–	8,467,575
Highways and streets	6,184,553	–	6,184,553
Interest on long-term debt	1,380,182	–	1,380,182
Water and wastewater	–	16,142,040	16,142,040
Environmental	–	7,556,614	7,556,614
Airport	–	3,411,603	3,411,603
Total expenses	47,585,091	27,110,257	74,695,348
Increase in net assets before transfers	18,120,984	8,006,391	26,127,375
Transfers	(476,304)	476,304	–
Change in net assets	17,644,680	8,482,695	26,127,375
Net assets at beginning of year	76,722,187	190,758,430	267,480,617
Net assets at end of year	\$ 94,366,867	\$ 199,241,125	\$ 293,607,992

Governmental activities. Governmental activities increased the City's net assets by \$17.6 million, accounting for 67.5% of the total growth in the net assets of the City. The key factors for this increase are as follows:

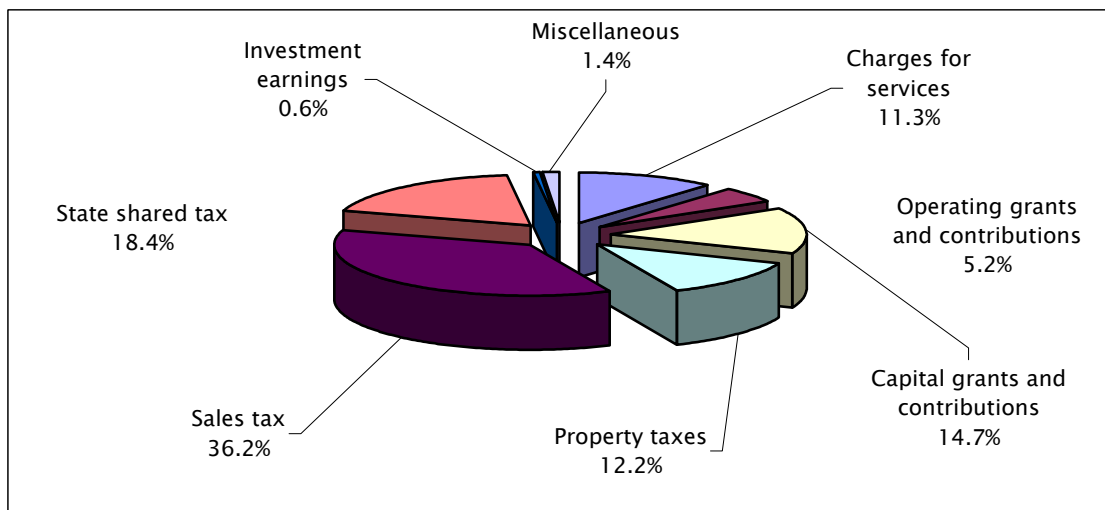
- Transportation tax revenue increases were implemented as allowed through the original voter approval. Transportation tax is largely devoted to capital projects. Many capital projects are still in the design phase and the related expense has not as yet been recognized.
- While the state sales tax receipts lagged due to continued economic downturns, local sales tax revenues bolstered by incentive financing in the auto industry exceeded budgetary expectations.

- Anticipated additional declines in state sales tax revenues prompted City management to implement conservative spending measures.

Expenses and Program Revenues – Governmental Activities

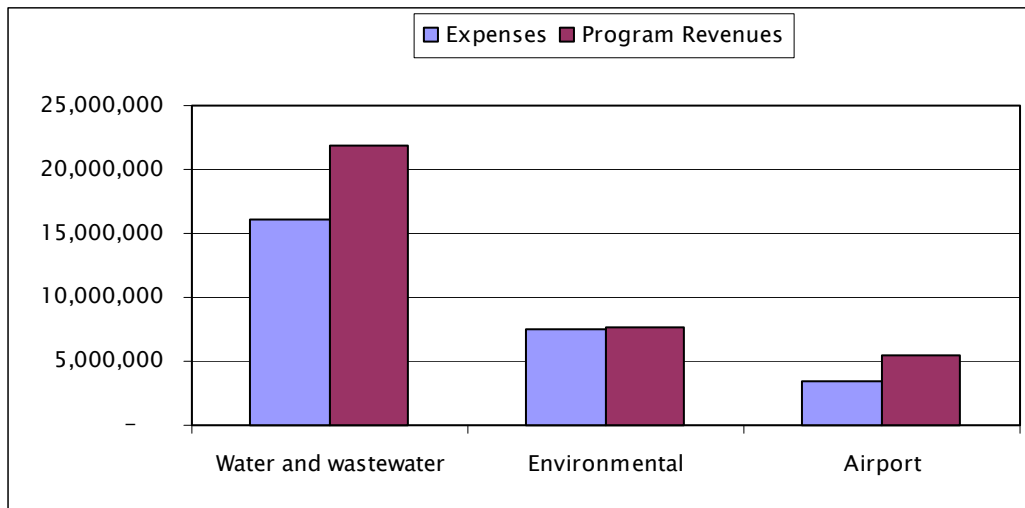


Revenues by Source – Governmental Activities

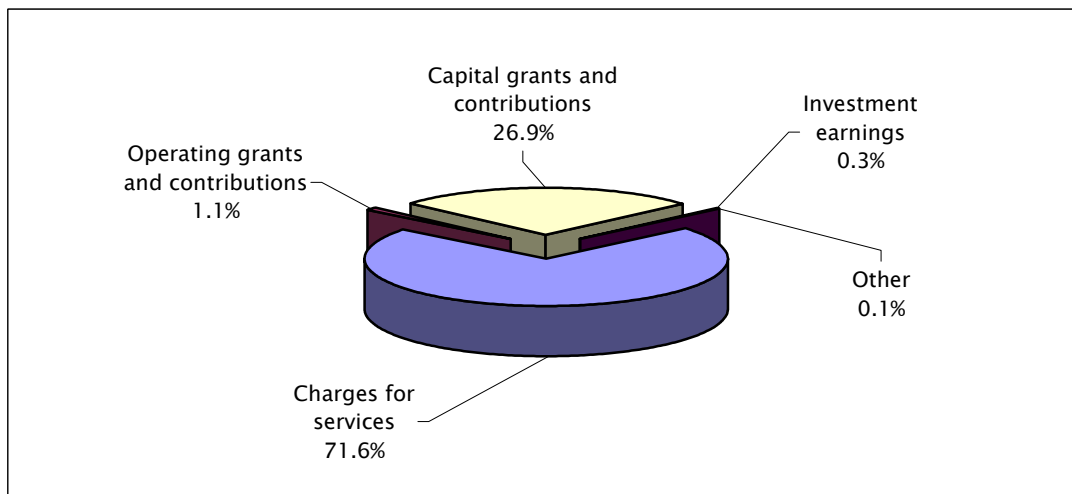


These charts illustrate the City's governmental expenses and revenues by function and its revenues by source. As shown, Public Safety is the largest function in expense (38%), followed by Culture and Recreation (18%), Economic and Physical Development (15%), and Highways and Streets (13%). General revenues such as sales taxes, state shared taxes, and property taxes are not shown by program, but are effectively used to support program activities citywide. For governmental activities overall, without regard to program, sales taxes are the largest single source of funds (37%), followed by state shared taxes (18%), and capital grants and contributions (15%). As with the Statement of Net Assets and the Statement of Activities, because the GASB 34 reporting model significantly changes the form of the financial data, the City has not restated prior fiscal year revenue and expenditure information. Year to year comparisons will be included in future reports.

Expenses and Program Revenues – Business Type Activities



Revenues by Source – Business-type activities



As shown in the chart, the largest of the City's business-type activities, Water and Wastewater, has expenses of \$16.1 million for the fiscal year, followed by Environmental Services with \$7.6 million, and Airport with \$3.4 million. For the fiscal year, revenues exceeded expense in every category. Water and Wastewater and Environmental Services receive the majority of their program revenues through charges for services (76% and 99%, respectively), while the Airport receives the majority of program revenue through capital grants and contributions (76%). Charges for services provided the largest share of revenues (72%) for all of the business-type activities, followed by capital grants and contributions (27%).

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General fund, Special Revenue funds, and Debt Service funds.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$44.6 million, a decrease of \$1.3 million in comparison with the prior year. The decrease is primarily due to the initiation or completion of several very large capital projects including the Rio de Flag flood control project, street construction and park improvement projects, and the completion of the USGS facility. Approximately \$43.5 million of the total ending fund balance constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to pay debt service (\$946,819), (2) for inventory reserve (\$176,838), and perpetual care (\$12,390).

Revenues for governmental functions overall totaled approximately \$64.4 million in the fiscal year ended June 30, 2003 which represents an increase of 1.9% or \$1.2 million from the fiscal year ended June 30, 2002. Expenditures for governmental functions, totaling \$66.3 million, decreased by approximately 3.8% (\$2.6 million) from the fiscal year ended June 30, 2002. In the fiscal year ended June 30, 2003 expenditures for governmental functions exceeded revenues by approximately \$2.0 million, or 3.1% of revenues.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$21.9 million. As a measure of liquidity, it may be useful to compare both total unreserved, undesignated fund balance and total fund balance to total fund expenditures. The unreserved, undesignated fund balance and total fund balance represent 63.6% and 64.1%, respectively, of general fund balance.

The fund balance in the City's General Fund increased by \$3.1 million during the fiscal year mainly due to the sale of capital assets, and increased revenues for fees and licenses. Overall, the General Fund's performance resulted in revenues in excess of expenditures in the fiscal year ended June 30, 2003 of \$2.4 million. This is an increase of approximately \$2.97 million over the comparable figure from the prior year of \$167,633.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the fiscal year, the unrestricted net assets for the Water and Wastewater fund were \$23.3 million. The Environmental Services and Airport funds had deficit balances of \$2.2 million and \$37,062, respectively. The internal service fund, which is used to account for risk management and health insurance activities, had unrestricted net assets of \$4.9 million.

The total growth in net assets for the proprietary funds was \$8.6 million. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities.

Fiduciary funds

The City maintains fiduciary funds for the assets of the Firemen's Pension Trust Fund. As of June 30, 2003, the net assets had decreased by \$4,902.

Budget Highlights

The City's final budget differs from the original budget for certain divisions within the General, Highway User Revenue, MPO, and Water and Wastewater funds, even though the overall original budget remained the same. Council approved transfers from the contingency funds for the following divisions:

General fund contingency transfer:

\$100,000	CD Administration – reorganization of customer service
50,000	Police grant activity (100% reimbursable by grant revenue)
<u>60,000</u>	Shop – decrease in shop charge outs
<u>\$210,000</u>	

HURF fund contingency transfer:

<u>\$50,000</u>	MPO activity 100% reimbursed by grant revenue
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Water and wastewater contingency transfer:

<u>\$60,000</u>	Wildcat plant – unexpected equipment repairs
-----------------	--

Capital Assets and Debt Administration

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2003 amount to \$279.9 million (net of accumulated depreciation). Capital assets include land, buildings, infrastructure, improvements, machinery and equipment, and construction in progress. The total increase in the City's capital assets for the current year was 9.1%. The following table reflects the capital assets at the end of the fiscal year:

Capital Assets, Net of Depreciation
June 30, 2003

	Governmental Activities	Business-Type Activities	Total
Land	\$ 9,842,489	\$ 2,357,360	\$ 12,199,849
Buildings	24,384,440	49,159,987	73,544,427
Improvements	7,762,477	144,497,022	152,259,499
Machinery and equipment	8,622,735	4,516,744	13,139,479
Infrastructure	10,845,972	–	10,845,972
Construction in progress	11,750,626	6,137,036	17,887,662
Total	<u>\$ 73,208,739</u>	<u>\$ 206,668,149</u>	<u>\$ 279,876,888</u>

Major capital asset events during the current fiscal year included the following:

- Inclusion of capital assets (including infrastructure) for governmental activities, along with associated depreciation as applicable
- Completion of a number of projects including the USGS facility, the Butler/Enterprise intersection, and airport improvements.

For government-wide financial statement presentation, all depreciable capital assets are depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. Please refer to Note IV C of the Notes to the Financial Statements for further information regarding capital assets.

Long Term Debt

At the end of the current fiscal year, the City had total long-term debt outstanding of \$60.8 million. Of this amount, \$30.4 million is general obligation bonds backed by the full faith and credit of the City, \$21.3 million is revenue bonds, \$0.9 million is improvement district bonds, \$4.5 million is for the Municipal Facility Corporation, and \$3.7 million are outstanding loans for the airport and water/wastewater.

Outstanding Debt June 30, 2003						
	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
General obligation bonds	\$ 7,485,000	\$ 8,935,000	\$ 22,957,848	\$ 25,049,726	\$ 30,442,848	\$ 33,984,726
Special assessment bonds	944,000	1,188,000	-	-	944,000	1,188,000
Revenue bonds	14,790,000	16,520,000	6,537,329	-	21,327,329	16,520,000
Other debt	4,445,000	4,700,000	-	-	4,445,000	4,700,000
Loans	-	-	3,689,323	4,047,874	3,689,323	4,047,874
Total debt payable	<u>\$ 27,664,000</u>	<u>\$ 31,343,000</u>	<u>\$ 33,184,500</u>	<u>\$ 29,097,600</u>	<u>\$ 60,848,500</u>	<u>\$ 60,440,600</u>

The City issued \$6.8 million in new Water and Sewer revenue debt during the fiscal year, representing the final amount previously approved through election.

During fiscal year 2003, the City's total bonded debt increased by approximately \$0.4 million as the new Water and Sewer debt issuance exceeded those amounts retired on the other debt.

The State constitution imposes certain debt limitations on the City of six percent (6%) and twenty percent (20%) of the outstanding assessed valuation of the City. The City's available debt margin at June 30, 2003 is \$23.7 million in the 6% category and \$66.6 million in the 20% capacity. Additional information on the debt limitations and capacities may be found in Table XI in the statistical section of this report.

During the year, the City maintained the following bond ratings:

City of Flagstaff Bonded Debt Ratings As of June 30, 2003

	Moody's Investors Service	Standard & Poor's
General Obligation	AAa3	A+
Water and Sewer Revenue	A-1	A
Street and Highway Revenue	A-1	A+

Additional information on the City's long-term debt can be found in Section IV F of the Notes to the Financial Statements.

Economic Factors and Next Year's Budget and Rates

The Fiscal Year 2003/2004 budget preparation was influenced by the following factors:

- A conservative economic forecast and limited revenue growth
- A zero-based approach to the operating budget, leading to limited increases, or in some cases, overall reductions in division budgets
- Decreases in general fund supported positions
- Sustained funding of capital projects to better insure against economic downturns in the future

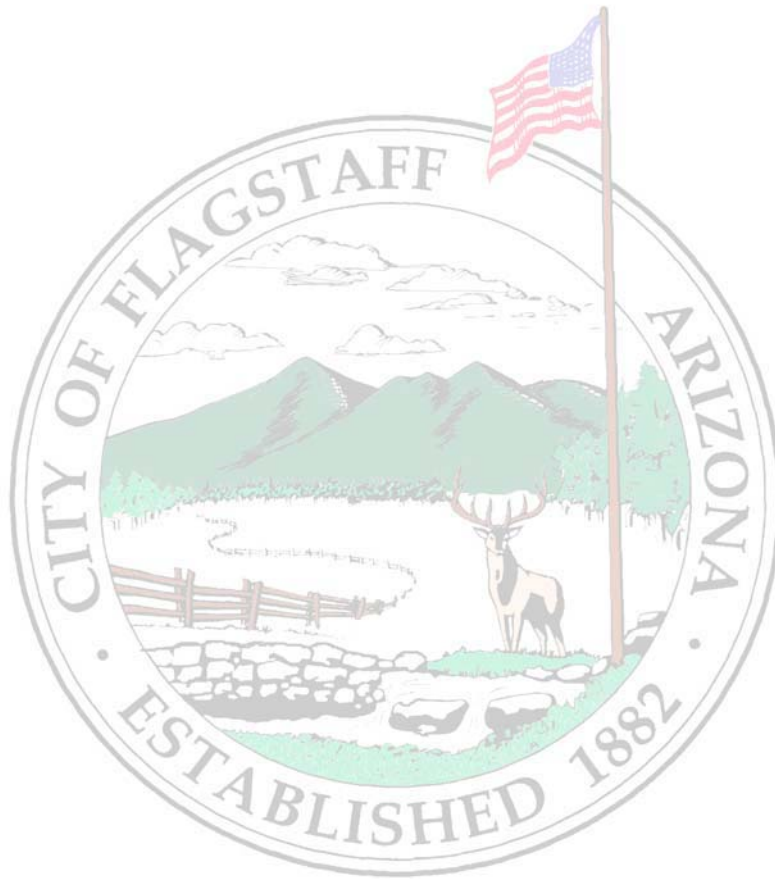
During Fiscal Year 2003, the City imposed an environmental fee to aid in offsetting some of the environmental expenses incurred as directed by Council. The City also approved a Stormwater Utility effective July 1, 2003 to comply with NPDES stormwater requirements.

Requests for Information

The financial report is designed to provide a general overview of the City's finances for all of those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact:

City of Flagstaff
Management Services Department
Finance and Budget Division
211 W. Aspen
Flagstaff, AZ 86001

(928) 774-5281



CITY OF FLAGSTAFF, ARIZONA
Statement of Net Assets
June 30, 2003

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Greater Flagstaff Economic Council
ASSETS				
Cash and cash equivalents	\$ 43,339,206	\$ 28,687,634	\$ 72,026,840	\$ 313,501
Cash with fiscal agents	4,032,294	3,566,667	7,598,961	-
Investments	4,106,484	683,214	4,789,698	-
Accounts receivable, net	5,229,232	3,706,381	8,935,613	113,374
Interest receivable	137,252	119,264	256,516	-
Intergovernmental receivable	3,350,018	204,605	3,554,623	-
Bond proceeds receivable	101,976	-	101,976	-
Special assessments receivable	544,134	-	544,134	-
Internal balance	237,539	(237,539)	-	-
Inventory	188,165	331,412	519,577	-
Deferred bond issuance costs, net	132,903	-	132,903	-
Other assets	-	-	-	4,655
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	300,735	6,308,725	6,609,460	-
Capital assets:				
Non-depreciable	21,593,115	8,494,395	30,087,510	12,529
Depreciable, net	51,615,624	198,173,754	249,789,378	-
Total assets	134,908,677	250,038,512	384,947,189	444,059
LIABILITIES				
Accounts payable	2,773,847	763,724	3,537,571	496
Accrued payroll	1,187,562	299,389	1,486,951	12,930
Interest payable	598,193	-	598,193	-
Deferred revenue	895,877	110,219	1,006,096	-
Deposits payable	631,278	39,305	670,583	-
Mature bonds and lease payable	3,435,000	32,608	3,467,608	-
Unamortized bond premium	186,892	114,208	301,100	-
Liabilities payable from restricted assets	1,066,174	8,149,619	9,215,793	-
Landfill closure and postclosure care costs	-	7,837,007	7,837,007	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences	101,920	13,923	115,843	-
Bonds and loans payable	3,604,000	2,821,021	6,425,021	-
Due in more than one year:				
Compensated absences	2,001,067	226,399	2,227,466	-
Due to primary government	-	-	-	75,301
Bonds and loans payable	24,060,000	30,389,965	54,449,965	-
Total liabilities	40,541,810	50,797,387	91,339,197	88,727
NET ASSETS				
Invested in capital assets, net of related debt	45,410,334	173,369,441	218,779,775	12,529
Restricted for:				
Capital projects	13,818,932	1,983,899	15,802,831	-
Debt service	946,819	3,029,728	3,976,547	-
Perpetual care:				
Expendable	30	-	30	-
Nonexpendable	12,577	-	12,577	-
Unrestricted	34,178,175	20,858,057	55,036,232	342,803
Total net assets	\$ 94,366,867	\$199,241,125	\$293,607,992	\$ 355,332

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Statement of Activities
Year Ended June 30, 2003

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 4,840,896	\$ 4,757,483	\$ 76,223	\$ 326,800
Public safety	18,270,468	743,738	721,338	18,002
Public Works	1,169,302	830,885	–	–
Economic and physical development	7,272,115	222,008	961,107	–
Culture and recreation	8,467,575	733,159	1,669,772	632,246
Highways and streets	6,184,553	119,854	–	8,669,074
Interest on long-term debt	1,380,182	–	–	–
Total governmental activities	<u>47,585,091</u>	<u>7,407,127</u>	<u>3,428,440</u>	<u>9,646,122</u>
Business-type activities:				
Water and wastewater	16,142,040	16,534,341	–	5,264,852
Environmental	7,556,614	7,682,458	–	48,813
Airport	3,411,603	926,406	382,239	4,147,131
Total business-type activities	<u>27,110,257</u>	<u>25,143,205</u>	<u>382,239</u>	<u>9,460,796</u>
Total primary government	<u><u>\$ 74,695,348</u></u>	<u><u>\$ 32,550,332</u></u>	<u><u>\$ 3,810,679</u></u>	<u><u>\$ 19,106,918</u></u>
Component units				
Greater Flagstaff Economic Council	\$ 586,896	\$ 75,698	\$ 613,454	\$ –
Total component units	<u><u>\$ 586,896</u></u>	<u><u>\$ 75,698</u></u>	<u><u>\$ 613,454</u></u>	<u><u>\$ –</u></u>

General revenues:
Property taxes, levied for general purposes
Property taxes, levied for debt service
Sales taxes
State shared sales taxes
Investment earnings
Miscellaneous
Gain on sale of capital assets
Contributions to permanent fund
Transfers in (out)
Total general revenues, contributions and transfers
Change in net assets
Net assets – beginning
Net assets – ending

The notes to the financial statements are an integral part of this statement

Net (Expenses) Revenues and Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Greater Flagstaff Economic Council
\$ 319,610	\$ -	\$ 319,610	\$ -
(16,787,390)	-	(16,787,390)	-
(338,417)	-	(338,417)	-
(6,089,000)	-	(6,089,000)	-
(5,432,398)	-	(5,432,398)	-
2,604,375	-	2,604,375	-
(1,380,182)	-	(1,380,182)	-
<u>(27,103,402)</u>	<u>-</u>	<u>(27,103,402)</u>	<u>-</u>
-	5,657,153	5,657,153	-
-	174,657	174,657	-
-	2,044,173	2,044,173	-
<u>-</u>	<u>7,875,983</u>	<u>7,875,983</u>	<u>-</u>
<u>\$ (27,103,402)</u>	<u>\$ 7,875,983</u>	<u>\$ (19,227,419)</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ 102,256
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 102,256</u>
3,427,509	-	3,427,509	-
4,582,784	-	4,582,784	-
23,805,566	-	23,805,566	-
12,073,108	-	12,073,108	-
383,111	106,733	489,844	2,570
492	-	492	-
944,381	23,675	968,056	-
7,435	-	7,435	-
(476,304)	476,304	-	-
<u>44,748,082</u>	<u>606,712</u>	<u>45,354,794</u>	<u>2,570</u>
17,644,680	8,482,695	26,127,375	104,826
76,722,187	190,758,430	267,480,617	250,506
<u>\$ 94,366,867</u>	<u>\$ 199,241,125</u>	<u>\$ 293,607,992</u>	<u>\$ 355,332</u>

CITY OF FLAGSTAFF, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2003

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Transportation Fund</u>
ASSETS			
Cash and cash equivalents	\$ 20,923,413	\$ 4,386,930	\$ 6,815,123
Cash with fiscal agents	358,627	1,980,048	-
Investments	13,664	1,003,671	-
Accounts receivable, net	3,256,094	554,652	-
Interest receivable	71,771	25,179	-
Intergovernmental receivables	803,489	992,063	940,098
Interfund receivable	370,000	-	-
Bond proceeds receivable	101,976	-	-
Special assessments receivable	-	-	-
Inventory	176,838	-	-
Restricted cash and cash equivalents	61,330	-	-
Total assets	<u>\$ 26,137,202</u>	<u>\$ 8,942,543</u>	<u>\$ 7,755,221</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 929,607	\$ 629,387	\$ 199,686
Accrued payroll and compensated absences	1,152,004	69,711	-
Current bonds payable	255,000	1,730,000	-
Interest payable	103,627	250,048	-
Interfund payable	-	-	-
Deferred revenue	1,044,623	-	-
Guaranty and other deposits	631,278	-	-
Liabilities payable from restricted assets	61,330	-	-
Total liabilities	<u>4,177,469</u>	<u>2,679,146</u>	<u>199,686</u>
Fund balances:			
Reserved for:			
Debt service	-	-	-
Inventory	176,838	-	-
Perpetual care	-	-	-
Unreserved, undesignated, reported in:			
General fund	21,782,895	-	-
Special revenue funds	-	6,263,397	7,555,535
Permanent fund	-	-	-
Total fund balances	<u>21,959,733</u>	<u>6,263,397</u>	<u>7,555,535</u>
Total liabilities and fund balances	<u>\$ 26,137,202</u>	<u>\$ 8,942,543</u>	<u>\$ 7,755,221</u>

The notes to the financial statements are an integral part of this statement

BBB Fund	Other Governmental Funds	Total Governmental Funds
\$ 2,946,706	\$ 3,070,223	\$ 38,142,395
-	1,693,619	4,032,294
3,089,149	-	4,106,484
75,440	923,819	4,810,005
15,877	6,577	119,404
5,056	609,312	3,350,018
-	-	370,000
-	-	101,976
-	544,134	544,134
11,327	-	188,165
9,680	229,725	300,735
<u>\$ 6,153,235</u>	<u>\$ 7,077,409</u>	<u>\$ 56,065,610</u>

\$ 312,397	\$ 240,054	\$ 2,311,131
14,186	53,581	1,289,482
-	1,450,000	3,435,000
-	244,518	598,193
120,000	250,000	370,000
-	687,372	1,731,995
-	-	631,278
9,680	995,164	1,066,174
<u>456,263</u>	<u>3,920,689</u>	<u>11,433,253</u>

-	946,819	946,819
-	-	176,838
-	12,390	12,390
-	-	21,782,895
5,696,972	2,197,294	21,713,198
-	217	217
<u>5,696,972</u>	<u>3,156,720</u>	<u>44,632,357</u>
<u>\$ 6,153,235</u>	<u>\$ 7,077,409</u>	<u>\$ 56,065,610</u>

CITY OF FLAGSTAFF, ARIZONA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
JUNE 30, 2003

Fund balances – total governmental funds balance sheet \$ 44,632,357

Amounts reported for governmental activities in the statements of
net assets are different because (also see note II):

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the governmental funds.

Governmental capital assets	99,493,794	
Less: accumulated depreciation	(26,285,055)	73,208,739

Other assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Deferred bond issue costs	132,903	
Fines and forfeitures	366,260	499,163

Long-term liabilities, including bonds payable are not due and payable
in the current period and therefore are not reported in the governmental
funds.

Governmental bonds payable	27,664,000	
Bond premium	186,892	
Compensated absences	2,001,067	(29,851,959)

Certain revenues are not available to pay for current period expenditures
and, therefore, are deferred in the governmental funds.

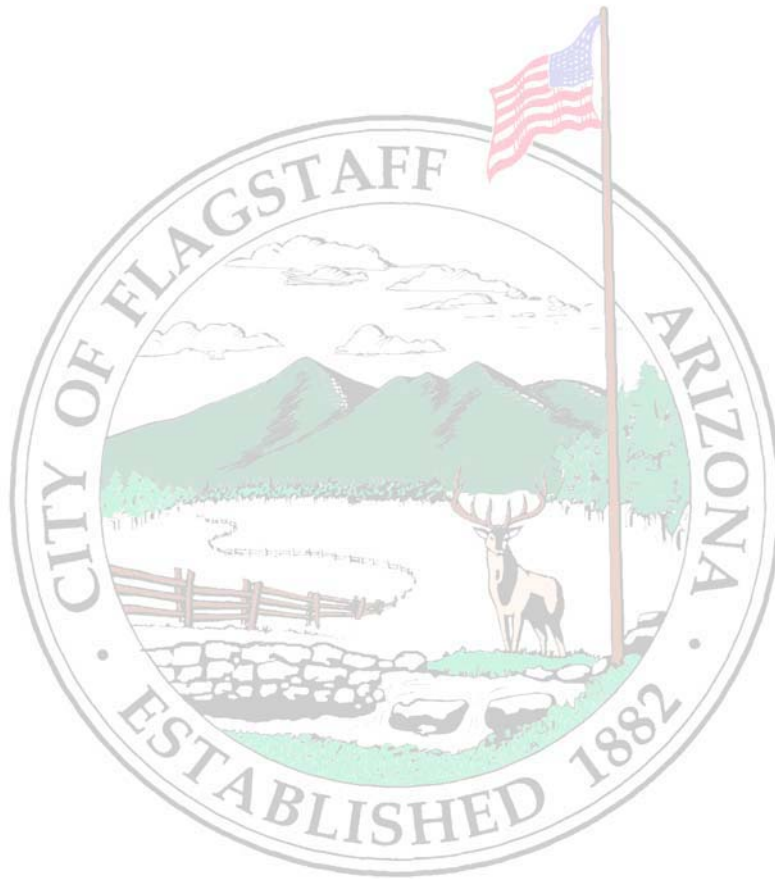
Special assessments	544,134	
Property tax	291,984	836,118

The internal service fund is used by management to charge the cost of
self insurance programs to individual funds.

The assets and liabilities of the internal service funds that are reported with governmental activities.		5,042,449

Net assets of governmental activities – statement of net assets	\$ 94,366,867

The notes to the financial statements are an integral part of this statement



CITY OF FLAGSTAFF, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2003

	<u>General Fund</u>	<u>Highway User Revenue Fund</u>	<u>Transportation Fund</u>
REVENUES:			
Taxes	\$ 16,679,215	\$ -	\$ 6,602,604
Intergovernmental	11,746,308	-	-
Grants and entitlements	1,150,501	8,573,142	-
Charges for services	1,724,096	-	-
Special assessments	-	-	-
Licenses and permits	2,378,728	-	-
Fines and forfeitures	1,303,069	-	-
Rent	830,885	-	-
Investment earnings	123,142	610	51,287
Contributions	326,800	-	-
Miscellaneous	433,732	119,854	-
Total revenues	<u>36,696,476</u>	<u>8,693,606</u>	<u>6,653,891</u>
EXPENDITURES:			
Current:			
General governmental	4,453,180	-	-
Public safety	17,202,980	-	-
Public works	948,944	-	-
Economic and physical development	3,919,896	-	-
Culture and recreation	3,967,045	-	-
Highways and streets	-	4,130,907	1,522,402
Debt service:			
Principal retirement	255,000	1,730,000	-
Interest and other charges	210,567	670,360	-
Capital outlay	3,309,350	7,043,155	3,432,246
Total expenditures	<u>34,266,962</u>	<u>13,574,422</u>	<u>4,954,648</u>
Excess (deficiency) of revenues over expenditures	<u>2,429,514</u>	<u>(4,880,816)</u>	<u>1,699,243</u>
OTHER FINANCING SOURCES (USES):			
Refunding bonds issued	-	9,375,000	-
Payment to bond refunding escrow agent	-	(9,429,957)	-
Bond premium	-	190,240	-
Sale of capital assets	928,585	17,651	-
Transfers in	4,681,019	4,112,173	335
Transfers out	(4,904,839)	(1,030,069)	(1,827,960)
Total other financing sources (uses)	<u>704,765</u>	<u>3,235,038</u>	<u>(1,827,625)</u>
Net change in fund balances	<u>3,134,279</u>	<u>(1,645,778)</u>	<u>(128,382)</u>
Fund balances, beginning of year as restated	<u>18,825,454</u>	<u>7,909,175</u>	<u>7,683,917</u>
Fund balances, end of year	<u>\$ 21,959,733</u>	<u>\$ 6,263,397</u>	<u>\$ 7,555,535</u>

The notes to the financial statements are an integral part of this statement

BBB Fund	Other Governmental Funds	Total Governmental Funds
\$ 3,826,975	\$ 4,415,081	\$ 31,523,875
-	-	11,746,308
728,178	2,622,741	13,074,562
5,179	-	1,729,275
-	360,158	360,158
-	-	2,378,728
-	-	1,303,069
14,558	-	845,443
(15,901)	115,334	274,472
-	7,435	334,235
47,055	180,855	781,496
<u>4,606,044</u>	<u>7,701,604</u>	<u>64,351,621</u>
-	-	4,453,180
-	-	17,202,980
-	-	948,944
1,814,521	1,325,858	7,060,275
762,372	2,870,286	7,599,703
22,741	-	5,676,050
-	1,694,000	3,679,000
-	499,255	1,380,182
3,852,234	667,176	18,304,161
<u>6,451,868</u>	<u>7,056,575</u>	<u>66,304,475</u>
<u>(1,845,824)</u>	<u>645,029</u>	<u>(1,952,854)</u>
-	-	9,375,000
-	-	(9,429,957)
-	-	190,240
-	-	946,236
370,812	3,544,141	12,708,480
(1,131,717)	(4,290,199)	(13,184,784)
<u>(760,905)</u>	<u>(746,058)</u>	<u>605,215</u>
<u>(2,606,729)</u>	<u>(101,029)</u>	<u>(1,347,639)</u>
<u>8,303,701</u>	<u>3,257,749</u>	<u>45,979,996</u>
<u>\$ 5,696,972</u>	<u>\$ 3,156,720</u>	<u>\$ 44,632,357</u>

CITY OF FLAGSTAFF, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003

Net change in fund balances – total governmental funds \$ (1,347,639)

Amounts reported for governmental activities in the statements of activities are different because:

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Expenditures for capital assets	18,304,161	
Less current year depreciation	<u>(2,983,832)</u>	15,320,329

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds

Accrual of long-term compensated absences		(147,941)
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Some items reported in the governmental funds are sources and uses of current financial resources and therefore are not reported as revenues or expenses in the statement of activities. These items include:

Bond proceeds	(9,375,000)	
Principal payments on debt	13,108,957	
Bond premium	<u>(186,892)</u>	3,547,065

Bond issuance costs are recognized as debt service expenditures in the governmental funds, however these costs are capitalized on the statement of net assets and amortized in the statement of activities.		132,902
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The sale of capital assets in the governmental funds reflect proceeds. However, in the statement of activities the sale of capital assets reflect the net gain (loss).		(1,855)
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Certain revenues in the governmental funds that provide current financial resources are not included in the statement of activities because they were recognized in a prior period. However, other revenues that are deferred in the governmental funds because they do not provide current financial resources due to unavailability are recognized in the statement of activities.

Special assessments	(360,158)	
Property tax	291,984	
Fines and forfeitures	<u>366,260</u>	298,086

Internal service funds are used by management to charge the costs of certain activities, such as the City's self-insurance program to individual funds. The following activities of the internal service fund are reported with governmental activities.

Operating loss	(264,906)	
Investment income	<u>108,639</u>	<u>(156,267)</u>

Change in net assets of governmental activities – statement of activities		<u><u>\$ 17,644,680</u></u>
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The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
June 30, 2003

	Budget		Actual Amounts	Variance with Final Budget
	Original	Final	Budgetary Basis	Positive (Negative)
REVENUES:				
Taxes	\$ 16,353,345	\$ 16,353,345	\$ 16,679,215	\$ 325,870
Intergovernmental	11,519,864	11,519,864	11,746,308	226,444
Grants and entitlements	745,812	745,812	1,150,501	404,689
Charges for services	1,606,784	1,606,784	1,724,096	117,312
Licenses and permits	1,553,750	1,553,750	2,378,728	824,978
Fines and forfeitures	1,269,344	1,269,344	1,303,069	33,725
Rent	1,080,428	1,080,428	830,885	(249,543)
Investment earnings	520,000	520,000	123,142	(396,858)
Contributions	-	-	326,800	326,800
Miscellaneous	94,100	94,100	433,732	339,632
Total revenues	<u>34,743,427</u>	<u>34,743,427</u>	<u>36,696,476</u>	<u>1,953,049</u>
EXPENDITURES:				
Current:				
General governmental	4,845,717	4,845,717	4,453,180	392,537
Public safety	17,408,209	17,458,209	17,202,980	255,229
Public works	870,324	930,324	948,944	(18,620)
Economic and physical development	4,206,871	4,306,871	3,919,896	386,975
Culture and recreation	4,387,692	4,387,692	3,967,045	420,647
Debt service:				
Principal retirement	255,000	255,000	255,000	-
Interest and other charges	207,399	207,399	210,567	(3,168)
Capital outlay	10,082,888	10,082,888	3,309,350	6,773,538
Contingency	670,000	460,000	-	460,000
Total expenditures	<u>42,934,100</u>	<u>42,934,100</u>	<u>34,266,962</u>	<u>8,667,138</u>
Excess (deficiency) of revenues over expenditures	<u>(8,190,673)</u>	<u>(8,190,673)</u>	<u>2,429,514</u>	<u>10,620,187</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	36,000	36,000	928,585	892,585
Transfers in	5,134,137	5,134,137	4,681,019	(453,118)
Transfers out	(4,974,902)	(4,974,902)	(4,904,839)	70,063
Total other financing sources (uses)	<u>195,235</u>	<u>195,235</u>	<u>704,765</u>	<u>509,530</u>
Net change in fund balances	<u>(7,995,438)</u>	<u>(7,995,438)</u>	<u>3,134,279</u>	<u>11,129,717</u>
Fund balances, beginning of year, as restated	<u>13,836,044</u>	<u>13,836,044</u>	<u>18,919,134</u>	<u>5,083,090</u>
Fund balances, end of year	<u>\$ 5,840,606</u>	<u>\$ 5,840,606</u>	<u>22,053,413</u>	<u>\$ 16,212,807</u>
Adjustment from budgetary basis to generally accepted accounting basis:				
Compensated absences – change in accounting estimate			(88,695)	
Beginning balance transfer to perpetual care fund			(4,985)	
Fund balance – GAAP basis			<u>\$ 21,959,733</u>	

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Highway User Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2003

	Budget		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget
				Positive
				(Negative)
REVENUES:				
Grants and entitlements	\$ 8,280,858	\$ 8,280,858	\$ 8,573,142	\$ 292,284
Investment earnings	282,000	282,000	610	(281,390)
Miscellaneous	–	–	119,854	119,854
Total revenues	<u>8,562,858</u>	<u>8,562,858</u>	<u>8,693,606</u>	<u>130,748</u>
EXPENDITURES:				
Current:				
Highways and streets	4,386,609	4,386,609	4,130,907	(255,702)
Debt service:				
Principal retirement	1,565,000	1,565,000	1,730,000	165,000
Interest and other charges	947,623	947,623	670,360	(277,263)
Capital outlay	15,697,655	15,697,655	7,043,155	(8,654,500)
Contingency	700,000	650,000	–	(650,000)
Total expenditures	<u>23,296,887</u>	<u>23,246,887</u>	<u>13,574,422</u>	<u>(9,672,465)</u>
Excess (deficiency) of revenues over expenditures	<u>(14,734,029)</u>	<u>(14,684,029)</u>	<u>(4,880,816)</u>	<u>9,803,213</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital assets	–	–	17,651	17,651
Transfers in	7,072,123	7,072,123	4,112,173	(2,959,950)
Transfers out	(1,072,030)	(1,072,030)	(1,030,069)	41,961
Total other financing sources (uses)	<u>6,000,093</u>	<u>6,000,093</u>	<u>3,099,755</u>	<u>(2,900,338)</u>
Net change in fund balances	<u>(8,733,936)</u>	<u>(8,683,936)</u>	<u>(1,781,061)</u>	<u>6,902,875</u>
Fund balances, beginning of year	<u>9,409,957</u>	<u>9,409,957</u>	<u>7,915,376</u>	<u>(1,494,581)</u>
Fund balances, end of year	<u>\$ 676,021</u>	<u>\$ 726,021</u>	<u>6,134,315</u>	<u>\$ 5,408,294</u>
Adjustment from budgetary basis to generally accepted accounting basis:				
Compensated absences – current year accrual			(6,204)	
Bond refunding issuance costs			135,286	
Fund balance – GAAP basis			<u>\$ 6,263,397</u>	

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Transportation Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2003

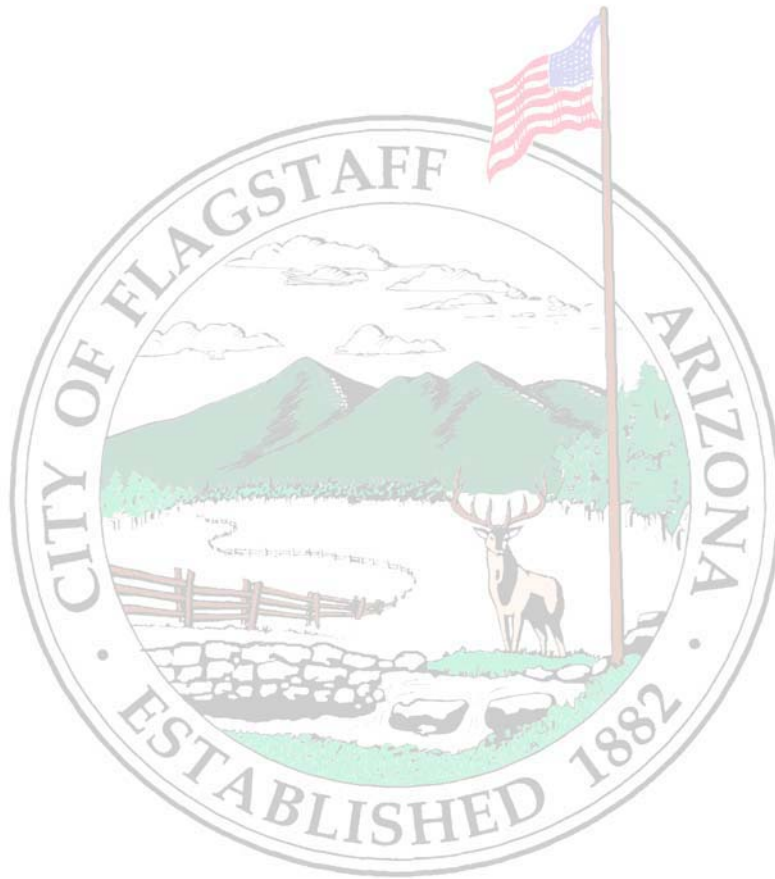
	Budget		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget
				Positive
				(Negative)
REVENUES:				
Taxes	\$ 6,319,304	\$ 6,319,304	\$ 6,602,604	\$ 283,300
Investment earnings	329,000	329,000	51,287	(277,713)
Total revenues	6,648,304	6,648,304	6,653,891	5,587
EXPENDITURES:				
Current:				
Highways and streets	1,592,080	1,592,080	1,522,402	(69,678)
Capital outlay	9,692,752	9,692,752	3,432,246	(6,260,506)
Total expenditures	11,284,832	11,284,832	4,954,648	(6,330,184)
Excess (deficiency) of revenues over expenditures	(4,636,528)	(4,636,528)	1,699,243	6,335,771
OTHER FINANCING SOURCES (USES):				
Bonds issued	7,000,000	7,000,000	–	(7,000,000)
Transfers in	–	–	335	335
Transfers out	(5,415,700)	(5,415,700)	(1,827,960)	3,587,740
Total other financing sources (uses)	1,584,300	1,584,300	(1,827,625)	(3,411,925)
Net change in fund balances	(3,052,228)	(3,052,228)	(128,382)	2,923,846
Fund balances, beginning of year	6,576,580	6,576,580	7,683,917	1,107,337
Fund balances, end of year	\$ 3,524,352	\$ 3,524,352	\$ 7,555,535	\$ 4,031,183

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
BBB Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2003

	Budget		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget
				Positive (Negative)
REVENUES:				
Taxes	\$ 3,854,287	\$ 3,854,287	\$ 3,826,975	\$ (27,312)
Grants and entitlements	693,727	693,727	728,178	34,451
Charges for services	–	–	5,179	5,179
Rent	14,180	14,180	14,558	378
Investment earnings	218,585	218,585	(15,901)	(234,486)
Miscellaneous	51,250	51,250	47,055	(4,195)
Total revenues	<u>4,832,029</u>	<u>4,832,029</u>	<u>4,606,044</u>	<u>(225,985)</u>
EXPENDITURES:				
Current:				
Economic and physical development	2,070,640	2,070,640	1,814,521	(256,119)
Culture and recreation	435,699	435,699	762,372	326,673
Highways and streets	25,000	25,000	22,741	(2,259)
Capital outlay	8,556,952	8,556,952	3,852,234	(4,704,718)
Contingency	95,000	95,000	–	(95,000)
Total expenditures	<u>11,183,291</u>	<u>11,183,291</u>	<u>6,451,868</u>	<u>(4,731,423)</u>
Excess (deficiency) of revenues over expenditures	<u>(6,351,262)</u>	<u>(6,351,262)</u>	<u>(1,845,824)</u>	<u>4,505,438</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,315,792	1,315,792	370,812	(944,980)
Transfers out	<u>(1,605,722)</u>	<u>(1,605,722)</u>	<u>(1,131,717)</u>	<u>474,005</u>
Total other financing sources (uses)	<u>(289,930)</u>	<u>(289,930)</u>	<u>(760,905)</u>	<u>(470,975)</u>
Net change in fund balances	<u>(6,641,192)</u>	<u>(6,641,192)</u>	<u>(2,606,729)</u>	<u>4,034,463</u>
Fund balances, beginning of year	<u>8,250,698</u>	<u>8,250,698</u>	<u>8,303,701</u>	<u>53,003</u>
Fund balances, end of year	<u>\$ 1,609,506</u>	<u>\$ 1,609,506</u>	<u>\$ 5,696,972</u>	<u>\$ 4,087,466</u>

The notes to the financial statements are an integral part of this statement



CITY OF FLAGSTAFF, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2003

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 24,191,659	\$ 4,464,450
Cash with fiscal agents	3,306,920	–
Investments	79,000	604,214
Accounts receivable, net	2,899,663	702,005
Interest receivable	87,794	30,973
Interfund receivables	100,000	–
Intergovernmental receivables	–	–
Inventory	331,412	–
Total current assets	<u>30,996,448</u>	<u>5,801,642</u>
Noncurrent assets:		
Restricted cash and cash equivalents	1,613,490	4,305,251
Capital assets, non-depreciable	6,467,088	1,849,427
Capital assets, depreciable, net	163,564,323	4,720,513
Total non-current assets	<u>171,644,901</u>	<u>10,875,191</u>
Total assets	<u>202,641,349</u>	<u>16,676,833</u>
LIABILITIES		
Current liabilities:		
Accounts payable	688,153	9,987
Accrued payroll and compensated absences	195,874	94,729
Deferred revenue	101,952	–
Unamortized bond premium	99,635	–
Interfund payable	–	–
Lease and notes payable	–	–
Liabilities payable from restricted assets	3,570,192	4,319,680
Deposits payable	–	17,340
Total current liabilities	<u>4,655,806</u>	<u>4,441,736</u>
Noncurrent liabilities:		
Compensated absences	159,101	61,412
Landfill closure and postclosure care costs	–	7,837,007
Bonds and notes payable	31,017,903	–
Total noncurrent liabilities	<u>31,177,004</u>	<u>7,898,419</u>
Total liabilities	<u>35,832,810</u>	<u>12,340,155</u>
NET ASSETS		
Invested in capital assets, net of related debt	138,913,873	6,569,940
Restricted:		
Capital projects	1,593,915	–
Debt service	3,029,728	–
Unrestricted	23,271,023	(2,233,262)
Total net assets	<u>\$ 166,808,539</u>	<u>\$ 4,336,678</u>

Some amounts reported for *business-type activities* in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities.

Net assets of business-type activities

The notes to the financial statements are an integral part of this statement

Business-type Activities – Enterprise Funds		Governmental Activities
Airport Fund	Total	Internal Service Fund
\$ 31,525	\$ 28,687,634	\$ 5,196,811
259,747	3,566,667	–
–	683,214	–
104,713	3,706,381	52,967
497	119,264	17,848
–	100,000	94,897
204,605	204,605	–
–	331,412	–
<u>601,087</u>	<u>37,399,177</u>	<u>5,362,523</u>
389,984	6,308,725	–
177,880	8,494,395	–
<u>29,888,918</u>	<u>198,173,754</u>	<u>–</u>
<u>30,456,782</u>	<u>212,976,874</u>	<u>–</u>
<u>31,057,869</u>	<u>250,376,051</u>	<u>5,362,523</u>
65,584	763,724	462,716
22,709	313,312	–
8,267	110,219	–
14,573	114,208	–
194,897	194,897	–
59,094	59,094	–
259,747	8,149,619	–
21,965	39,305	–
<u>646,836</u>	<u>9,744,378</u>	<u>462,716</u>
5,886	226,399	–
–	7,837,007	–
<u>2,166,597</u>	<u>33,184,500</u>	<u>–</u>
<u>2,172,483</u>	<u>41,247,906</u>	<u>–</u>
<u>2,819,319</u>	<u>50,992,284</u>	<u>462,716</u>
27,885,628	173,369,441	–
389,984	1,983,899	–
–	3,029,728	–
<u>(37,062)</u>	<u>21,000,699</u>	<u>4,899,807</u>
<u>\$ 28,238,550</u>	<u>\$ 199,383,767</u>	<u>\$ 4,899,807</u>
	(142,642)	
	<u>\$ 199,241,125</u>	

CITY OF FLAGSTAFF, ARIZONA
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2003

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
OPERATING REVENUES:		
Charges for services	\$ 16,615,511	\$ 7,680,007
Miscellaneous	(1,165)	–
Total operating revenues	<u>16,614,346</u>	<u>7,680,007</u>
OPERATING EXPENDITURES:		
Personal services	3,788,455	2,349,763
Contractual services, materials and supplies	6,077,116	4,411,698
Insurance claims and expenses	–	–
Depreciation and amortization	<u>4,984,376</u>	<u>754,398</u>
Total operating expenses	<u>14,849,947</u>	<u>7,515,859</u>
Operating income (loss)	<u>1,764,399</u>	<u>164,148</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest and investment income	155,117	(52,499)
Grants and entitlements	425	48,813
Gain on sale of capital asset	23,671	4
Interest expense	(1,206,508)	–
Miscellaneous	<u>(80,005)</u>	<u>2,451</u>
Total non-operating revenues (expenses)	<u>(1,107,300)</u>	<u>(1,231)</u>
Income (loss) before capital contributions and transfers	<u>657,099</u>	<u>162,917</u>
Capital contributions	5,264,427	–
Transfers in	2,400,360	–
Transfers out	<u>(2,403,310)</u>	<u>(429,678)</u>
Change in net assets	<u>5,918,576</u>	<u>(266,761)</u>
Total net assets, beginning of year as restated	<u>160,889,963</u>	<u>4,603,439</u>
Total net assets, end of year	<u>\$ 166,808,539</u>	<u>\$ 4,336,678</u>

Some amounts reported for *business-type activities* on the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities.

Change in net assets of business-type activities

The notes to the financial statements are an integral part of this statement

Business-type Activities – Enterprise Funds		Governmental Activities
Airport Fund	Total	Internal Service Fund
\$ 923,137	\$ 25,218,655	\$ 5,212,338
472	(693)	2,596
923,609	25,217,962	5,214,934
466,038	6,604,256	–
1,197,945	11,686,759	–
–	–	5,539,025
1,619,663	7,358,437	–
3,283,646	25,649,452	5,539,025
(2,360,037)	(431,490)	(324,091)
4,115	106,733	25,181
4,529,370	4,578,608	–
–	23,675	–
(111,655)	(1,318,163)	–
2,797	(74,757)	–
4,424,627	3,316,096	25,181
2,064,590	2,884,606	(298,910)
–	5,264,427	–
908,932	3,309,292	–
–	(2,832,988)	–
2,973,522	8,625,337	(298,910)
25,265,028	190,758,430	5,198,717
\$ 28,238,550	\$ 199,383,767	\$ 4,899,807
	(142,642)	
	\$ 199,241,125	

City of Flagstaff, Arizona
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2003

	Business-type Activities – Enterprise Funds	
	Water and Wastewater Fund	Environmental Services Fund
Cash flows from operating activities:		
Receipts from customers	\$ 16,198,555	\$ 7,637,700
Payments to suppliers	(6,611,510)	(3,880,801)
Payments to employees	(3,751,277)	(2,322,264)
Other receipts	(1,165)	–
Net cash provided (used) by operating activities	<u>5,834,603</u>	<u>1,434,635</u>
Cash flows from noncapital financing activities:		
Transfer from other funds	2,400,360	–
Transfer to other funds	(2,403,310)	(429,678)
Interfund loans paid	–	–
Interfund loans received	(100,000)	–
Other non-operating receipts (payments)	(80,005)	2,451
Net cash provided (used) by noncapital financing activities	<u>(182,955)</u>	<u>(427,227)</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	6,775,760	–
Receipts from grantors	20,000	199,027
Capital Contributions	2,238,752	–
Acquisition and construction of capital assets	(7,436,505)	(711,451)
Principal payments on capital debt	(1,776,592)	–
Interest paid on capital debt	(1,263,969)	–
Proceeds from sales of capital assets	23,671	4
Net cash provided (used) by capital and related financing activities	<u>(1,418,883)</u>	<u>(512,420)</u>
Cash flows from investing activities:		
Interest received on investments	232,125	(35,778)
Net cash provided (used) by investing activities	<u>232,125</u>	<u>(35,778)</u>
Net increase (decrease) in cash and cash equivalents	<u>4,464,890</u>	<u>459,210</u>
Cash and cash equivalents at beginning of year	<u>24,726,179</u>	<u>8,914,705</u>
Cash and cash equivalents at end of year	<u>\$ 29,191,069</u>	<u>\$ 9,373,915</u>
Classified as:		
Cash, cash equivalents, and investments	\$ 24,191,659	\$ 4,464,450
Cash and investments	79,000	604,214
Restricted cash with fiscal agents	3,306,920	–
Non-current restricted cash and cash equivalents	1,613,490	4,305,251
Totals	<u>\$ 29,191,069</u>	<u>\$ 9,373,915</u>

The notes to the financial statements are an integral part of this statement
(continued)

Business-type Activities – Enterprise Funds		Governmental Activities
Airport Fund	Total	Internal Service Fund
\$ 937,281	\$ 24,773,536	\$ 5,214,942
(2,273,555)	(12,765,866)	(5,352,116)
(460,768)	(6,534,309)	–
472	(693)	2,596
(1,796,570)	5,472,668	(134,578)
908,932	3,309,292	–
–	(2,832,988)	–
(2,625,000)	(2,625,000)	–
–	(100,000)	–
2,782	(74,772)	–
(1,713,286)	(2,323,468)	–
–	6,775,760	–
8,228,626	8,447,653	–
–	2,238,752	–
(4,320,155)	(12,468,111)	–
(187,558)	(1,964,150)	–
(176,308)	(1,440,277)	–
–	23,675	–
3,544,605	1,613,302	–
5,480	201,827	50,170
5,480	201,827	50,170
40,229	4,964,329	(84,408)
641,027	34,281,911	5,281,219
\$ 681,256	\$ 39,246,240	\$ 5,196,811
\$ 31,525	\$ 28,687,634	\$ 5,196,811
–	683,214	–
259,747	3,566,667	–
389,984	6,308,725	–
\$ 681,256	\$ 39,246,240	\$ 5,196,811

(continued)

City of Flagstaff, Arizona
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2003

	<u>Business-type Activities – Enterprise Funds</u>	
	<u>Water and Wastewater Fund</u>	<u>Environmental Services Fund</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	\$ 1,764,399	\$ 164,148
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	4,984,376	754,398
Landfill closure and postclosure costs	–	633,757
(Increase) decrease in assets:		
Accounts receivable	(407,868)	(42,307)
Inventories	96,715	–
Increase (decrease) in liabilities:		
Accounts payable	(631,109)	(102,860)
Accrued payroll and compensated absences	37,178	27,499
Deposits payable	(16,276)	–
Deferred revenue	7,188	–
Total Adjustments	<u>4,070,204</u>	<u>1,270,487</u>
Net cash provided (used) by operating activities	<u>\$ 5,834,603</u>	<u>\$ 1,434,635</u>
Noncash investing, capital and financing activities:		
Capital assets acquired through contributions from developers	\$ 3,025,675	\$ –
Total noncash investing, capital and financing activities	<u>\$ 3,025,675</u>	<u>\$ –</u>

The notes to the financial statements are an integral part of this statement

<u>Business-type Activities – Enterprise Funds</u>		<u>Governmental Activities Internal Service Fund</u>
<u>Airport Fund</u>	<u>Total</u>	
\$ (2,360,037)	\$ (431,490)	\$ (324,091)
1,619,663	7,358,437	–
–	633,757	–
(418)	(450,593)	2,604
–	96,715	–
(1,075,610)	(1,809,579)	186,909
5,270	69,947	–
6,295	(9,981)	–
8,267	15,455	–
<u>563,467</u>	<u>5,904,158</u>	<u>189,513</u>
<u>\$ (1,796,570)</u>	<u>\$ 5,472,668</u>	<u>\$ (134,578)</u>
\$ –	\$ 3,025,675	\$ –
<u>\$ –</u>	<u>\$ 3,025,675</u>	<u>\$ –</u>

CITY OF FLAGSTAFF, ARIZONA
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

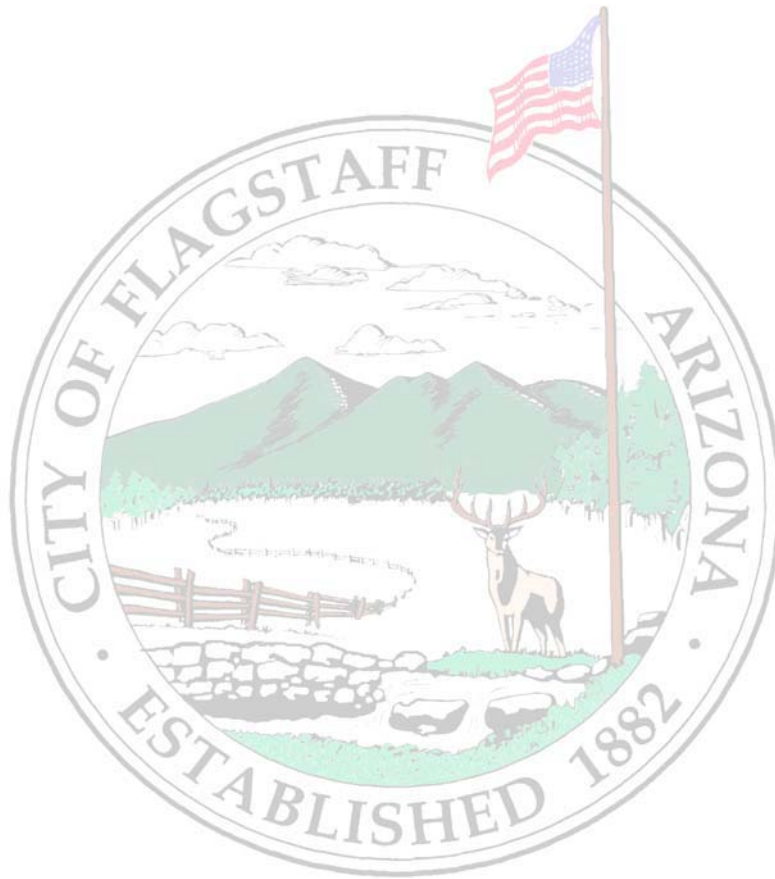
	Firemen's Pension Fund
ASSETS	
Cash and cash equivalents	\$ 221,002
Interest receivable	728
Total assets	<u>221,730</u>
LIABILITIES	
Other liabilities	<u>-</u>
Total liabilities	<u>-</u>
NET ASSETS	
Held in trust for pension benefits and other purposes	<u><u>\$ 221,730</u></u>

The notes to the financial statements are an integral part of this statement

CITY OF FLAGSTAFF, ARIZONA
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2003

	Firemen's Pension Fund
ADDITIONS:	
Investment earnings	\$ 2,176
Other income	122
Total additions	<u>2,298</u>
 DEDUCTIONS:	
Retirement payments	<u>7,200</u>
Total deductions	<u>7,200</u>
 Change in net assets	 (4,902)
 Net assets – beginning of year	 <u>226,632</u>
Net assets – end of year	<u><u>\$ 221,730</u></u>

The notes to the financial statements are an integral part of this statement



CITY OF FLAGSTAFF, ARIZONA
Notes to the Financial Statement
June 30, 2003

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY

The City of Flagstaff (the City) was incorporated as a town in 1894 and as a city in 1928. The current City Charter was approved April 10, 1984. The Charter provides for the Council-Mayor form of government and the authority to provide municipal services, as limited by the State Constitution.

The accounting policies of the City of Flagstaff conform to United States of America generally accepted accounting principles (GAAP) as applicable to Governmental Units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The City of Flagstaff is a municipal corporation governed by an elected Mayor and six-member council. The accompanying financial statements include the City and all of its component, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The discretely presented component unit is reported in a separate column in the Government Wide Statement of Net Assets and Activities to emphasize it is legally separate from the government. The discretely presented component unit year-end is June 30.

Blended Component Unit: The Municipal Facilities Corporation (MFC) is a non-profit corporation created by the City for the purpose of constructing, acquiring and equipping municipal facilities. For Financial reporting purposes, transactions of the MFC are included as if it were part of the City's operations. In fiscal year 2001 the MFC issued \$4.7 million in bonds for the construction of a new United States Geological Survey (USGS) facility on land owned by the City. The City will make lease payments equal to the debt service and will obtain legal title upon payment in full of the bonds.

Discretely Presented Component Unit: The Greater Flagstaff Economic Council (GFEC) is responsible for planning and encouraging economic growth within the City of Flagstaff's jurisdiction. GFEC has an eighteen member Board of Directors, of which the Mayor and Vice Mayor are Directors who can directly or indirectly appoint two additional Directors. The remaining members of the Board are voted on by GFEC members. The economic resources of the GFEC are used almost entirely for the benefit of the City's constituents. Of the \$689,152 reported in program revenue, 73.8% (\$508,693) was funded by the City of Flagstaff signifying the organization is fiscally dependent on the City. GFEC is presented as a governmental fund type. Complete financial statements for the Greater Flagstaff Economic Council may be obtained at the entity's office: 1300 South Milton #125, Flagstaff, AZ 86001.

Related Organizations: The City of Flagstaff officials are also responsible for appointing board members of other organizations. However, as the City's control is limited to making the appointments and there is not a significant operational nor a significant financial relationship between these organizations and the City, they are not included as part of these financial statements.

B. BASIC FINANCIAL STATEMENTS – GASB 34

The accompanying financial statements have been prepared in accordance with a new reporting model defined by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. GASB 34 significantly changes financial reporting for governmental entities. GASB 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group. Significantly, the City's statement of net assets includes both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the general fixed asset account group and general long-term debt account group. In addition, the government-wide statement of activities reflects depreciation expenses on the City's fixed assets, including infrastructure.

Previous years' financial statements of the City were not prepared in accordance with the new reporting model. Therefore the accompanying financial statements are not comparable to the previous years' financial statements. GASB Statements No. 37 *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* and GASB Statements No. 38 *Certain Financial Statement Note Disclosures* have also been implemented in conjunction with GASB 34.

Significant changes of the new reporting model include the requirements for government-wide financial statements, management's discussion and analysis (presented as required supplementary information), and reporting of infrastructure such as roads, bridges, canal systems, ditches, water systems, sewer systems and recreational assets. Statement 34 requires reporting infrastructure on a prospective basis effective July 1, 2002 for phase two governments with retrospective reporting (for all major infrastructure assets acquired or constructed since 1980) effective for the City's fiscal year ending 2006. The City has elected to implement the infrastructure reporting requirements in 2007; accordingly, infrastructure capital assets acquired or constructed beginning in 1980 through June 30, 2002 are not included in the government-wide financial statements.

The basic financial statements of the City include the government-wide and the fund financial statements. Prior to the implementation of GASB 34, the financial statements emphasized fund types and account groups. In the new reporting model the focus is on the City as a whole in the government-wide financial statements, while reporting additional and detailed information about the City's major governmental and business-type activities in the fund financial statements.

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (statement of net assets and statement of activities) report on the City and its component units as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All activities, both governmental and business type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been removed from the government-wide financial statement. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

Interdepartmental services performed by one department for another are credited to the performing department and charged to the receiving department to reflect the accurate costs of programs. These indirect costs have been included as part of the program expenses reported for the various functional activities. The rates used are intended to reflect full costs in accordance with generally accepted cost accounting principles.

The government-wide Statement of Net Assets reports all financial and capital resources of the government (excluding fiduciary funds). It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt is capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted, are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Reservations or designations of net assets imposed by the reporting government, whether by administrative policy or legislative actions of the reporting government, are not shown on the government-wide financial statements.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of the various functions and segments of the City are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt and depreciation expense on assets shared by multiple functions are not allocated to the various functions. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, investment income and other revenues not identifiable with particular functions or segments are included as general revenues. The general revenues support the net costs of the functions and segments not covered by program revenues.

Also part of the basic financial statements are fund financial statements for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although the new model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined), it also gives governments the option of displaying other funds as major funds. The City has opted to add the Bed, Board, and Booze (BBB) Fund as major fund because of community focus. Other non-major funds are combined in a single column on the fund financial statements and are detailed in combining statements included as supplementary information after the basic financial statements.

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related

cash flows. Property taxes are recorded as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. This is the traditional basis of accounting for governmental funds. This presentation is deemed most appropriate to 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the City's actual revenues, and expenditures conform to the annual budget. Since the governmental fund financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, reconciliation is provided immediately following each fund statement. These reconciliations explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

The proprietary (enterprise) fund and fiduciary fund financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary fund financial statements will directly reconcile to the business-type activities column on the government-wide financial statements. Because the enterprise funds are combined into a single business-type activities column on the government-wide financial statements, certain interfund activities between these funds may be eliminated in the consolidation for the government-wide financial statements, but be included in the fund columns in the proprietary fund financial statements.

The City uses funds to report its financial position and the results of its operations. Fund accounting segregates funds according to their intended purpose and is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses.

The following fund categories are used by the City:

Governmental Fund Types

Governmental funds are those through which most of the governmental functions of the City are financed. The measurement focus is based upon determination of changes in financial position rather than upon net income determination.

The ***General Fund*** is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General fund will always be considered a major fund in the basic financial statements.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes. There are three special revenue funds that are presented as major funds in the basic financial statements. They are the:

- ***Highway User Revenue Fund***, which receives and expends the City's allocation of the Highway User Revenue money. Monies allocated to this fund must be used for Street construction, reconstruction and maintenance.
- ***Transportation Tax Fund*** that accounts for the receipt and expenditures of the Transportation Tax money. These monies are restricted to financing improvements in the Areas of the 4th Street overpass project, Safe to School/Pedestrian and Bike projects, Traffic Flow and Safety improvements, and Transit Service operations and enhancements.

- ***Bed, Board and Booze Tax Fund*** that accounts for the Bed, Board and Booze tax revenues and expenditures. These monies are restricted for use in the areas of Beautification, Economic Development, Tourism, Arts & Science, and Recreation.

Debt Service funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal and interest.

Permanent funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

The ***Perpetual Care Fund*** accounts for the perpetual care of the City's cemetery.

Proprietary Fund Types

Proprietary funds are used to account for the City's ongoing organizations and activities, which are similar to those found in the private sector and where cost recovery and the determination of net income is useful or necessary for sound fiscal management. The measurement focus is based upon determination of net income, changes in net assets, financial position, and cash flows.

Enterprise funds are used to account for operations that provide services to the general public for a fee. Under GASB Statement No. 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria: 1) any activity that has issued debt backed solely by the fees and charges of the activity, 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges, or 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs. The City has three enterprise funds, which are all presented as major funds in the basic financial statements and are used to account for the operation of the City's water system, wastewater system, environmental services, and Pulliam Airport.

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and other funds. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements since they are not assets of the City available to support City programs.

The ***Firemen's Pension Fund*** is a pension trust fund that is used to account for the activity of the City's single-employer retirement system. This fund is accounted for on the same basis as a proprietary fund, using the same measurement focus and basis of accounting.

Private Sector Standards

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Non-Current Governmental Assets/Liabilities

GASB Statement No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental column in the government-wide Statement of Net Assets.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities are generally included on the balance sheet. Operating statements present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Enterprise funds and pension trust funds are accounted for on a flow of economic resources measurement focus whereby all assets and liabilities associated with the operation of these funds are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The modified accrual basis of accounting is used by governmental funds. Revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days after year-end.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Revenues susceptible to accrual include property tax, privilege license tax, highway user tax, state shared sales tax, vehicle license tax, and interest earned on investments. Licenses and permits, charges for services, fines and forfeitures, parks and recreation charges and miscellaneous revenues are recorded when received in cash since they are generally not measurable until actually received.

The accrual basis of accounting is followed for all enterprise funds and the Pension Trust Fund, whereby revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized when incurred.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund’s principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

E. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Pooled Cash and Investments

The City’s cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorized the government to invest in the State’s Local Government Investment Pool, in obligations of the U.S. Treasury, commercial paper and repurchase agreements. Investment Income from pooled cash and investments is allocated monthly based on the percentage of a fund’s average daily equity in pooled cash and

investments to the total average daily pooled equity in pooled cash and investments. Investments are stated at fair value.

For purposes of the statement of cash flows, the City considers cash and cash equivalents, including restricted cash and cash equivalents, to be currency on hand, demand deposits with banks, amounts included in pooled cash and investment accounts and liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents are included in both unrestricted as well as restricted assets.

Receivables and Payables

Accounts receivable and taxes receivable, are shown net of an allowance for uncollectible accounts. The City's property tax is levied each year on or before the third Monday in August based on the previous January 1, full cash value as determined by the Coconino County Assessor. Levies are due and payable in two installments on September 1 and March 1. First half installments become delinquent on November 1; second half installments become delinquent on May 1. Interest at the rate of 12% per annum accrues following delinquent dates. Coconino County bills and collects all property taxes, at no charge to the taxing entities. A lien against property assessed attaches on the first day of January preceding assessment and levy thereon.

Under Arizona tax laws, there are two property tax levies, primary and secondary. Primary property taxes are not restricted as to use and are used to finance the general operations of the City. Secondary property taxes are restricted for general obligation bonded debt service. The secondary property tax levy is recorded as revenue in a debt service fund and transferred to the Water and Wastewater Enterprise Fund, the Recreation BBB Fund, the Airport Enterprise Fund and the General Obligation Bond Fund. General Obligation bonds are serviced by each of these funds. For fiscal year 2002–2003, primary and secondary property tax collections amounted to \$3,427,509 and \$4,415,081 respectively.

Inventory

Inventory is valued at cost, which approximates market, using the weighted average cost method. Inventory consists of expendable supplies held for consumption and is charged to expenditure accounts as consumed.

Restricted Assets

Certain debt proceeds of the City's bonds, as well as certain resources set aside for their repayment, are classified as restricted on the balance sheet, or statement of net assets, because they are maintained in trust accounts and their use is limited by applicable debt covenants.

Grant Revenue

The City, a recipient of grant revenues, recognizes revenues (net of estimated uncollectible amounts, if any), when all applicable eligibility requirements, including time requirements, are met. Resources transmitted to the City before the eligibility requirements are met are reported as deferred revenues. Some grants and contributions consist of capital assets or resources that are restricted for capital purposes – to purchase, construct, or renovate capital assets associated with a specific program. These are reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the City.

Capital Assets

Prior to GASB Statement No. 34, capital assets for governmental funds were recorded in the General Fixed Assets Account Group and were not depreciated. The new reporting model requires that all capital assets, whether owned by governmental activities or business-type activities, be recorded and depreciated (unless the modified approach is used) in the government-wide financial statements. The City has chosen not to apply the modified approach to any

networks or subsystems of infrastructure assets. No long-term assets or depreciation are shown in the governmental fund financial statements.

Capital Assets, including public domain infrastructure (i.e., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and other assets that are immovable and of value only to the City) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5000 (\$25,000 for infrastructure assets) and an estimated useful life greater than three years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its life, are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Major capital outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, if material.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives (land and construction-in-progress are not depreciated):

<u>Assets</u>	<u>Useful life (years)</u>
Buildings	20-50
Improvements	10-20
Machinery and Equipment	5-20
Infrastructure	10-50

Committed Construction

At June 30, 2003 there were major uncompleted construction contracts as follows:

Highway Users Revenue Fund	\$	2,903,205
Parks and Recreation		634,058
Airport Fund		269,734
Utilities Fund		<u>1,990,679</u>
	\$	5,797,676

Compensated Absences

Vacation and sick leave is granted to all regular and part-time employees. The annual amount of vacation time accrued varies depending on years of service. Accumulated vacation leave vests and the City is obligated to make payment if the employee terminates. The liability for compensated absences attributable to the City's governmental funds is recorded in the government-wide statements as well as the applicable government funds. The amount attributable to business-type activities is charged to expense with a corresponding liability established in the government-wide statements as well as the applicable business-type funds.

Sick leave accrues at rates based on the classification of each employee and years of service. Vested (at least 20 years of service) sick leave is payable upon retirement, disability or death of up to 50 percent (not more than 520

hours) of accumulated sick leave. These amounts are also accumulated in both the government and business-type fund statements as well as the government-wide statements.

Long-Term Obligations

In the government-wide financial statements, and enterprise fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs in the period in which the bonds are issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts on debt issuances are reported as other financing uses, issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Interfund Transactions

Interfund transactions, consisting of services performed for other funds or costs billed to other funds are treated as expenditures in the fund receiving the services and as a reimbursement reducing expenditures in the fund performing the services, except for sales of water to other City departments, which are recorded as revenue, and in-lieu property taxes, which are recorded as revenue in the General Fund and expenses in the enterprise funds. In addition, operating transfers are made between funds to shift resources from a fund legally authorized to receive revenue to a fund authorized to expend the revenue.

Fund Equity

In the fund financial statements, reserved fund equity is defined as that portion of fund equity that has legally been segregated for specific purposes. Designated fund equity is defined as that portion of fund equity for which the City has made tentative plans for future use of financial resources. Unreserved/Undesignated fund equity is defined as that portion of fund equity, which is available for use in a future period.

Statement of Cash Flows

The City considers all high liquid investments (including restricted assets) with an original maturity of three months or less to be cash equivalents. In a statement of cash flows, cash receipts and payments are classified according to whether they stem from operating, noncapital financing, capital and related financing, or investing activities.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. OTHER

Arbitrage

Arbitrage is generated when the a local government temporarily reinvests bond proceeds (generally during construction periods) and interest earnings are generated in excess of the interest due and payable on the bond. While there are certain exceptions in which the local government may keep the excess earnings, most instances require that the local government remit these excess earnings to the federal government. Rebatable amounts are

recorded at such time they are actually due and payable to the federal government. The City of Flagstaff did not have any rebatable arbitrage for the year ended June 30, 2003

Compensated Absences

City employees are granted vacation and sick leave in varying amounts under the City's personnel ordinance. In the event of termination, an employee is reimbursed for accumulated vacation. If the employee has been employed by the City for a minimum of 20 years, the employee is additionally reimbursed for 50% of the accumulated sick leave.

For the governmental fund financial statements, the current payroll and current portion of the compensated absences are recorded as a current liability of the applicable funds. Long-term liabilities of governmental funds are not shown on the fund financial statements. For the government-wide financial statements, as well as the proprietary fund financial statements, all of the accrued liability for compensated absences are recorded as a liability.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund financial statements are presented on a current financial resources measurement focus and modified accrual accounting basis while the government-wide financial statements are prepared on a long-term economic resources measurement focus and accrual accounting basis. Reconciliation's briefly explaining the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements immediately follow each fund financial statement. Additional reconciliation's are provided as shown on the following page:

Reconciliation of Governmental Funds Balance Sheet and the government-wide Statement of Net Assets

	Total Governmental Funds	Capital Assets (1)	Long-Term Liabilities (2)	Internal Service Fund (3)	Reclass and Eliminations	Statement of Net Assets Totals
Assets						
Cash and cash equivalents	\$ 38,142,395			5,196,811		43,339,206
Cash with fiscal agents	4,032,294					4,032,294
Investments	4,106,484					4,106,484
Accounts receivable, net	4,810,005		366,260	52,967	-	5,229,232
Interest receivable	119,404			17,848		137,252
Intergovernmental receivables	3,350,018					3,350,018
Bond proceeds receivable	101,976					101,976
Special assessments receivable	544,134		-			544,134
Interfund receivable	370,000			237,539	(370,000)	237,539
Prepaid items	-		132,903			132,903
Inventory	188,165					188,165
Restricted cash and cash equivalents	300,735					300,735
Capital assets	-	73,208,739				73,208,739
Total Assets	\$ 56,065,610	73,208,739	499,163	5,505,165	(370,000)	134,908,677
Liabilities and Net Assets						
Accounts payable	\$ 2,311,131			462,716		2,773,847
Accrued payroll and compensated absences	1,289,482				(101,920)	1,187,562
Interest payable	598,193					598,193
Interfund payable	370,000			-	(370,000)	-
Deferred revenue	1,731,995		(836,118)			895,877
Guaranty and other deposits	631,278					631,278
Unamortized bond premium	-		186,892			186,892
Liabilities payable from restricted assets	1,066,174					1,066,174
Compensated absences - current	-		2,001,067		101,920	2,102,987
Current bonds/contracts payable	3,435,000		27,664,000			31,099,000
Fund balance/Net Assets	44,632,357	73,208,739	(28,516,678)	5,042,449	-	94,366,867
Total liabilities and net assets	\$ 56,065,610	73,208,739	499,163	5,505,165	(370,000)	134,908,677

- (1) Capital assets (land, buildings, equipment, etc.) that are to be used in governmental activities are purchased or constructed; the costs of those assets are reported as expenditures in governmental funds, and thus a reduction in fund balance. However, the statement of net assets includes those capital assets among the assets of the City as a whole.

Costs of capital assets	\$ 99,493,794
Accumulated depreciation	(26,285,055)
	<u>\$ 73,208,739</u>

- (2) Bond issuance costs are expensed when incurred in governmental funds, but are deferred and amortized over the life of the bonds in the statement of net assets.

Unamortized bond issue costs	<u>\$ 132,903</u>
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Certain receivables are not recognized in the governmental funds, but are earned in the statement of net assets.

Deferred court receivables	<u>\$ 366,260</u>
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Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly are not reported as fund liabilities in the governmental fund statement. All liabilities, both current and long-term are reported in the statement of net assets.

Bonds payable	\$ 34,703,000
Compensated absences	2,102,987
Unamortized bond premium	<u>186,892</u>
Subtotal	36,992,879
Less: Current compensated absences	101,920
Current portion of bonds	<u>7,039,000</u>
	<u>\$ 29,851,959</u>

Deferred revenue for the long-term special assessment receivables and property tax shown on the governmental fund statements is not deferred on the statements of net assets:

Deferred special assessment	\$ 544,134
Deferred property tax	<u>291,984</u>
	<u>\$ 836,118</u>

- (3) Internal service funds are used by management to charge the costs self insurance to the individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets, but are not included on the governmental fund balance sheet.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

Reconciliation of Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balance and the government-wide Statement of Activities:

	Total Governmental Funds	Capital Related Items (1)	Long-Term Revenues/ Expenses (2)	Internal Service Fund (3)	Adjustments and Eliminations	Statement of Activities Totals
Revenues and Other Sources						
Taxes	\$ 31,523,875		291,984			\$ 31,815,859
Intergovernmental	11,746,308					11,746,308
Grants and entitlements	13,074,562					13,074,562
Charges for services	1,729,275					1,729,275
Special assessments	360,158		(360,158)			-
Licenses and permits	2,378,728					2,378,728
Fines and forfeitures	1,303,069		366,260		-	1,669,329
Rent	845,443					845,443
Investment earnings	274,472			108,639		383,111
Contributions	334,235					334,235
Miscellaneous	781,496					781,496
Total revenue	64,351,621	-	298,086	108,639	-	64,758,346
Expenditures/Expenses						
General governmental	4,453,180	235,043	124,145	28,528		4,840,896
Public safety	17,202,980	973,752		93,736		18,270,468
Public works	948,944	212,207		8,151		1,169,302
Economic and physical development	7,060,275	160,310	6,700	44,830		7,272,115
Culture and recreation	7,599,703	829,285	(2,168)	40,755		8,467,575
Highways and streets	5,676,050	573,235	(113,638)	48,906		6,184,553
Principal retirement	3,679,000		(3,679,000)		-	-
Interest and other charges	1,380,182		-			1,380,182
Capital outlay	18,304,161	(18,304,161)			-	-
Total expenditures/expenses	66,304,475	(15,320,329)	(3,663,961)	264,906	-	47,585,091
OTHER FINANCING SOURCES (USES):						
Refunding bonds issued	9,375,000		(9,375,000)			-
Payment to bond refunding escrow agent	(9,429,957)		9,429,957			-
Bond (discount) premium	190,240		(186,892)			3,348
Sale of capital assets	946,236	(1,855)				944,381
Transfers in	12,708,480					12,708,480
Transfers out	(13,184,784)					(13,184,784)
Total other financing sources (uses)	605,215	(1,855)	(131,935)	-	-	471,425
Net change for the year	\$ (1,347,639)	15,318,474	3,830,112	(156,267)	-	17,644,680

- (1) When capital assets that are to be used in the governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of the financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year.

Capital outlay	\$ 18,304,161
Depreciation expense	(2,983,832)
Gain (loss) on sale of capital assets	(1,855)
	<u>\$ 15,318,474</u>

- (2) Special assessment principal payments received are reported as revenue on the governmental fund statements, but are reductions to the outstanding special assessment debt for government-wide reporting. Property tax revenue not received within 30 days of year-end are deferred for governmental fund reporting, but are not deferred for government-wide reporting.

Special assessment received	\$ (360,158)
Property Tax	291,984
Court Revenue	<u>366,260</u>
	<u>\$ 298,086</u>

The costs of issuing bonds are reported as expenditure in governmental funds in the year of bond issuance. For the City as a whole, however, the bond issuance costs are deferred and amortized (expensed) over the life of the bonds.

Issuance costs for new bonds	\$ 135,283
Amortization of bond issuance costs	<u>(2,381)</u>
	<u>\$ 132,902</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrual of long-term compensated absences	<u>\$ (147,941)</u>
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Prepayment of bond principal is reported as expenditure in governmental funds and thus has the effect of reducing fund balances because current financial resources have been used. For the City as a whole, however, the principal payments reduce the long-term liabilities in the statement of net assets and do not result in an expense in the statement of activities.

Principal bond payments	\$ 3,679,000
Bond refunding	(9,375,000)
Payment to bond refunding escrow agent	9,429,957
Bond premium on refunding	(190,240)
Amortization of bond premium	<u>3,348</u>
	<u>\$ 3,547,065</u>

- (3) Internal service funds are used by management to charge the costs of self-insurance to the individual funds. The adjustments for internal service funds "close" those funds by charging the additional amounts to participating governmental activities to completely cover the internal service funds' cost for the year.

Revenue	\$ 108,639
Expenditures	<u>(264,906)</u>
	<u>\$ (156,267)</u>

C. FOOTNOTE INFORMATION FOR FUND BALANCE RESTATEMENTS

Change in Accounting Principle and Accounting Error

The City implemented GASB Statement No.34 for the fiscal year ended June 30, 2003, which is a change in accounting principle. This caused certain prior year net assets/fund balances to be restated. The City also transferred the Capital Project Fund to the General Fund during Fiscal Year 2003.

An accounting error in debt service transactions and proprietary long-term compensated absences have resulted in a prior period adjustment to net assets/fund balance. The net effect of these movements is shown as an adjustment to beginning net assets/fund balance.

Net assets:	Governmental Activities
Fund balance at June 30, 2002, as previously reported:	
General	\$ 18,493,931
Special revenue	26,476,529
Debt service	681,757
Capital projects	425,203
Total fund balances at June 30, 2002, as previously reported	<u>46,077,420</u>
Change in accounting estimate	
Sick leave accrual – beginning current balance	<u>(97,424)</u>
Governmental fund balance at July 1, 2002	<u>45,979,996</u>
GASB Statement No. 34 adjustments:	
Internal service fund – equity	5,198,716
Net capital assets	57,890,265
Compensated absences	(1,853,125)
Long-term liabilities – debt	(31,343,000)
Deferred special assessment revenue	904,292
Bond premium	(190,240)
Bond issuance costs	135,283
	<u>30,742,191</u>
Net assets – governmental activities at July 1, 2002	<u>\$ 76,722,187</u>

Change in beginning net assets for proprietary funds

	Business-type Activities
Net assets:	
Fund balance at June 30, 2002, as previously reported:	
Water and wastewater	\$ 161,075,649
Environmental services	4,653,537
Airport	25,267,810
Total net assets at June 30, 2003 as previously reported	<u>190,996,996</u>
Change in accounting estimate	
Sick leave accrual – beginning current balance	(107,175)
Accounting error	
Long-term compensated absences not reported in enterprise funds	(90,730)
Debt service – cash with fiscal agent posting error	(40,661)
Total changes to net assets	<u>(238,566)</u>
Net assets – business-type activities at July 1, 2002	<u><u>\$ 190,758,430</u></u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Budget Basis of Accounting

The City's accounting records for General Government operations (General, Special Revenue, and Debt Service Funds) are maintained on a basis consistent with Generally Accepted Accounting Principles (GAAP) with measurable revenues recorded when they become available to finance expenditures in the current fiscal year. "Available" is defined as: collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on debt, are recognized in the accounting period in which the liability arises. State statute allows for encumbrances to be recognized for a 60-day period following the end of the prior fiscal year as uses of prior year appropriations. To ensure that appropriations do not lapse, departments are directed to re-budget for all items that are expected to be delivered after June 30.

For the Enterprise Funds, the annual budget is prepared on a basis that differs from GAAP because state law requires capital purchases and debt service payments to be budgeted as expenses, and bond proceeds and grants that are to be utilized are to be budgeted as revenues.

The accounting and budgeting systems for the City are in accordance with Generally Accepted Accounting Principles (GAAP) format, with minimal variances between the two systems. Budget basis for enterprise funds differ primarily due to state laws. The major differences are as follows:

- Encumbrances (contractual commitments) are considered the equivalent of expenditures. Encumbrances at year-end for goods or services, which are not received prior to the end of the fiscal year, are cancelled.
- Fund balances reserved to inventory and bonded debt are not included in the budget.
- Certain expenditures, such as depreciation and landfill closure and post closure accrual, are not included in the budget.
- All funds except the Internal Service Fund are budgeted.
- Enterprise funds budget capital expenditures and debt service payments as expenses.
- Enterprise funds budget bond proceeds and grants as revenues.

The City will utilize a number of different fund types to segregate the financial activity within the City either due to regulatory reasons or as designated internally. The fund classifications are Governmental funds, Proprietary funds and Fiduciary funds.

Review and Approval

Issues presented during the review and approval period include discussion topics of the Council fall and spring retreats. The fall and spring retreats were held in November and February respectively, to give City staff the opportunity to present major discussion points to Council and the public. The goal is for Council to make policy decisions and direct staff in preparing the budget. This provides adequate time for the Council to gather input on major budget issues prior to preparation of the budget. The City Council holds Study Sessions in May. The Council reviews and discusses the issue papers included in the Budget Review Book as well as all personnel recommendations, capital equipment recommendations, and the capital improvement plan. The Council arrives at a consensus for all decisions needed. The Study Sessions provide the opportunity for City management, departments and the public to offer information and recommendations to the City Council.

The proposed budget is presented to Council for tentative adoption on or before the third Monday in July. Two public hearings are held on the content of the budget. Final adoption occurred on July 1, 2003. State law requires the operating budget to be all-inclusive. Therefore, the budget includes provisions for contingent revenues, e.g., Passengers Facility Charges, and expenditures that cannot be accurately determined when the budget is adopted, e.g., grants. The Resolution adopting the annual budget requires Council authorization for any expenditure from contingencies, as well as transfer of budget authority between departments.

The City operates under the State Expenditure Limitation with a one-time adjustment to the base. The adjustment provided for an increase to the base limit to allow for the expenditure of funds resulting from the addition of a 2% Bed, Board, & Booze Tax. Flagstaff is not a Home Rule city. Alternative [Home Rule] Expenditure Control municipalities require voter approval every four years.

The Adopted Budget reflects the total funds appropriated. Certain exclusions are allowed by the state [e.g., bond proceeds, debt service, grants] in computing the Expenditure Limitation and this total cannot be exceeded.

Budget authority can be transferred between line items within a Division. At year-end, Department budgets are reviewed and budget authority is transferred from contingencies by Resolution as necessary. Additionally, any inter-fund transfer of appropriations requires Council approval. Council can also amend total appropriations for a fund during the year by Resolution as long as there is a corresponding increase/decrease in another fund so that the expenditure limitation is not exceeded.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The City did not realize any excess expenditure over appropriations at the department level (the legal level of budgetary control). However, there were six divisions that did have excess expenditures.

In the General Fund, the Planning division expenditures exceeded appropriations by \$25,772, the Police Grants division expenditures exceeded appropriations by \$122,359, the Public Works Administration division expenditures exceeded appropriations by \$497, and the Council and Commissions division expenditures exceeded appropriations by \$1,516. These over expenditures were funded by under expenditures of other divisions within their respective department.

In the Library Fund, the Library operating division expenditures exceeded appropriations by \$10,624. This over expenditure was funded by available fund balance.

In the Metropolitan Planning Organization Fund, the Metropolitan Planning division expenditures exceeded appropriations by \$227. This over expenditure was funded by additional grant revenue.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the government-wide Statement of Net Assets as "Cash and cash equivalents" and "investments".

At June 30, 2003, the carrying amount of the City's deposits was \$10,923,315 and the bank balance was \$20,317,540. The \$9,394,225 difference represents deposits in transit, outstanding checks, and other reconciling items at June 30, 2003. Of the City's deposits, \$6,258,615 was covered by federal depository insurance or by collateral held by the City's agent in the City's name. The remaining \$4.7 million was not collateralized as it was anticipated that funding would transfer to fiscal agents for June 30, 2003 bond payments. As the City was not aware of the transaction delay, the City was not able to notify the banking institution in advance. The bank generally monitors and collateralizes the City balance within 24 hours, so the City was over-collateralized on July 1. The trust department pledges a pool of collateral against all trust deposits it holds.

At year-end, the book value of deposits for GFEC, a discretely presented component unit, was \$313,501, which was covered by federal depository insurance or by collateral held by the entity's agent in GFEC's name.

Investments: City resolution and State Statutes authorized the City to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, repurchase agreements, money market accounts, certificates of deposit and the State of Arizona Local Government Investment Pool (LGIP). The LGIP is a part of the State Treasurer's office. The State Board of Deposit provides oversight for the State Treasurer's pools, and the LGIP Advisory Committee provides consultation and advice to the Treasurer. The fair value of the participant's position in the pool approximates the value of that participant pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk. All other investments were insured or registered in the City's name, or were held by the City or its agent in the City's name. It is the City's policy generally to hold investments until maturity. The fair value of the investments is based on quoted market values. The City has no investments held by a counter party's trust department or agent. The City is in compliance with the provisions of Statement No. 31 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which require certain investments to be reported at fair value rather than at cost.

The City's investments at June 30, 2003 are summarized below to give an indication of risk assumed by the City at year-end. Category 1 included investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker of dealer, but not in the City's name.

The City's investment in the State of Arizona's local government investment pool is stated at fair value, which also approximates the value of the investment upon withdrawal.

At June 30, 2003, the City's investments included the following:

	Category			Fair Amount
	1	2	3	
U.S. Government Securities	\$ 32,029,438	\$ -	\$ -	\$ 32,029,438
Local Government Securities	124,930	-	-	124,930
Municipal Securities	79,000	-	-	79,000
	<u>\$ 32,233,368</u>	<u>-</u>	<u>-</u>	<u>32,233,368</u>

Investments Not Categorized:

State of Arizona Investment Pool	\$ 47,854,612
AMFP Investment Pool	13,664
Total Investments	<u>\$ 80,101,644</u>

**Reconciliation of pooled cash and investments as reported on the
Government-wide Statement of Net Assets**

Carrying Amount of Investments	\$ 80,101,644
Carrying Amount of Cash Deposits	10,923,315
Total Pooled Cash and Investments	<u>\$ 91,024,959</u>
Pooled Cash and Investments – Unrestricted	\$ 76,816,538
Restricted Cash with Fiscal Agent and Investments	14,208,421
Total Pooled Cash and Investments	<u>\$ 91,024,959</u>

B. RECEIVABLES

Receivables as of June 30, 2003, including allowances for uncollectible accounts, are as follows:

Accounts receivable are recorded in the various funds and displayed in the financial statements net of an allowance for uncollectibles as follows:

Fund	Accounts	Interest	Intergov- ernmental	Bond Proceeds	Special Assessments	Total Receivables
Governmental Activities						
General	\$ 4,591,687	71,771	803,489	101,976	-	5,568,923
Highway User Revenue	554,652	25,179	992,063	-	-	1,571,894
Transportation	-	-	940,098	-	-	940,098
BBB	75,440	15,877	5,056	-	-	96,373
Other Governmental Funds	923,819	6,577	609,312	-	544,134	2,083,842
Less: Allowance for Uncollectibles	(969,333)	-	-	-	-	(969,333)
Total Government Funds	5,176,265	119,404	3,350,018	101,976	544,134	9,291,797
Internal Services Funds	52,967	17,848	-	-	-	70,815
Total Governmental Activities	5,229,232	137,252	3,350,018	101,976	544,134	9,362,612
Business-Type Activities						
Water and Wastewater	2,939,663	87,794	-	-	-	3,027,457
Environmental Services	728,905	30,973	-	-	-	759,878
Airport	109,713	497	204,605	-	-	314,815
Less: Allowance for Uncollectibles	(71,900)	-	-	-	-	(71,900)
Total Business-Type Activities	3,706,381	119,264	204,605	-	-	4,030,250
Grand Totals	\$ 8,935,613	256,516	3,554,623	101,976	544,134	13,392,862

C. CAPITAL ASSETS

Effective with these financial statements, the City has implemented the infrastructure reporting requirements of GASB Statement No. 34. Deletions have increased due to the inventory and evaluation of the City's general fixed assets completed during the fiscal year. Additionally, the capitalization threshold increased to \$5,000 and obsolete items were identified. The City has not completed its evaluation of the City's entire infrastructure as of June 30, 2003, and therefore, only the current year additions for infrastructure have been capitalized. The City will complete the infrastructure evaluation prior to June 30, 2007.

A summary of capital asset activity, for the government-wide financial statements, for the fiscal year ended June 30, 2003 is as follows:

	Balance July 1, 2002	Additions	Deletions and Retirements	Transfers In (out)	Balances June 30, 2003
Governmental activities:					
Non-depreciable assets:					
Land	\$ 7,305,321	\$ 2,543,561	-	(6,393)	\$ 9,842,489
Construction -in-progress	16,791,214	9,079,176	-	(14,119,764)	11,750,626
Total non-depreciable assets	24,096,535	11,622,737	-	(14,126,157)	21,593,115
Depreciable assets:					
Buildings	20,605,777	327,988	(295,297)	12,894,292	33,532,760
Improvements	10,260,066	2,347,607	(803,703)	1,431,395	13,235,365
Machinery and equipment	20,729,777	1,702,123	(2,079,142)	(199,530)	20,153,228
Infrastructure	-	10,979,326	-	-	10,979,326
Total depreciable assets	51,595,620	15,357,044	(3,178,142)	14,126,157	77,900,679
Accumulated depreciation:					
Buildings	(8,359,631)	(788,689)	-	-	(9,148,320)
Improvements	(4,838,341)	(634,547)	-	-	(5,472,888)
Machinery and equipment	(10,264,729)	(1,427,242)	161,478	-	(11,530,493)
Infrastructure	-	(133,354)	-	-	(133,354)
Total accumulated depreciation	(23,462,701)	(2,983,832)	161,478	-	(26,285,055)
Governmental activities capital assets, net	<u>\$ 52,229,454</u>	<u>\$ 23,995,949</u>	<u>\$ (3,016,664)</u>	<u>\$ -</u>	<u>\$ 73,208,739</u>

	Balances July 01, 2002	Additions	Retirements	Transfers In (out)	Balances June 30, 2003
Business-type activities:					
Non-depreciable assets:					
Land	\$ 2,357,360	\$ -	\$ -	\$ -	\$ 2,357,360
Construction -in-progress	11,982,745	3,299,321	-	(9,145,030)	6,137,036
Total non-depreciable assets	14,340,105	3,299,321	-	(9,145,030)	8,494,396
Depreciable assets:					
Buildings	66,682,276	3,165,804	-	2,640,327	72,488,407
Improvements	194,162,477	7,845,467	(1,975)	6,504,703	208,510,672
Machinery and equipment	13,942,404	1,182,922	(319,708)	-	14,805,618
Infrastructure	-	-	-	-	-
Total depreciable assets	274,787,157	12,194,193	(321,683)	9,145,030	295,804,697
Accumulated depreciation:					
Buildings	(21,758,858)	(1,569,562)	-	-	(23,328,420)
Improvements	(59,054,684)	(4,960,941)	1,975	-	(64,013,650)
Machinery and equipment	(9,780,930)	(827,652)	319,708	-	(10,288,874)
Infrastructure	-	-	-	-	-
Total accumulated depreciation	(90,594,472)	(7,358,155)	321,683	-	(97,630,944)
Business-type activities capital assets, net	<u>\$ 198,532,790</u>	<u>\$ 8,135,359</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 206,668,149</u>

Depreciation expense was charged to the governmental functions in the government-wide financial statements as follows:

General government	\$	541,384
Public safety		673,449
Public works		214,471
Economic and physical development		153,673
Culture and recreation		827,620
Highway and streets		573,235
Total depreciation expense	\$	<u>2,983,832</u>

D. INTERFUND RECEIVABLES, PAYABLES, and TRANSFERS

Interfund receivables and payables

Net interfund receivables and payables between governmental activities and business-type activities of \$237,539 are included in the government-wide financial statements at June 30, 2003. The interfund balances at June 30, 2003 are short-term loans to cover temporary cash deficits in various funds. This occasionally occurs prior to bond sales or grant reimbursements. All interfund balances outstanding at June 30, 2003 are expected to be repaid within one year. The following interfund receivables and payables are included in the fund financial statements at June 30, 2003:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Funds:		
General	\$ 370,000	-
BBB	-	120,000
Other Governmental Funds	-	250,000
Internal Service	94,897	-
Total governmental funds	<u>464,897</u>	<u>370,000</u>
Business-Type Funds:		
Water and Wastewater	100,000	-
Airport	-	194,897
Total enterprise funds	<u>100,000</u>	<u>194,897</u>
Grand Totals	\$ <u>564,897</u>	<u>564,897</u>

Transfers

The net transfers of \$476,304 from governmental activities to business-type activities on the government-wide statement of activities are primarily debt service and operational subsidies from the General Fund. The following transfers are reflected in the fund financial statements for the year ended June 30, 2003:

<u>Fund</u>	<u>Transfers out</u>	<u>Transfers In</u>
Governmental Funds:		
General	\$ 4,904,839	4,681,019
Highway User Revenue	1,030,069	4,112,173
Transportation	1,827,960	335
BBB	1,131,717	370,812
Other Governmental Funds	4,290,199	3,544,141
Total governmental funds	<u>13,184,784</u>	<u>12,708,480</u>
Business-Type Funds:		
Water and Wastewater	2,403,310	2,400,360
Environmental Services	429,678	-
Airport	-	908,932
Total enterprise funds	<u>2,832,988</u>	<u>3,309,292</u>
Grand Totals	<u>\$ 16,017,772</u>	<u>16,017,772</u>

E. CAPITAL LEASES

The City of Flagstaff is the lessee in a capital lease agreement for financing the construction of an Airport T-Hangar.

The assets acquired through capital leases are as follows:

	<u>Airport Fund</u>
Asset:	
T-Hangar	\$ 289,992
Less: Accumulated Depreciation	<u>(98,069)</u>
Total	<u>\$ 191,923</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2003 were as follows:

<u>Fiscal Year</u>	<u>Airport Fund</u>
2004	\$ <u>34,640</u>
Total minimum Lease Payments	34,640
Less: Interest	<u>(2,031)</u>
Present Value of Minimum Lease Payments	<u>\$ 32,609</u>

Operating Leases Expenditures

The City leases library space under a non-cancelable operating lease. The lease is for the East Flagstaff Library. The terms of the contract is for a period of 10 years with adjustments on July 1st to the lease amount based on the prior year change in the Consumer Price Index for the prior year. Fiscal Year 2003 lease expense for the library was \$17,857. The schedule below for future minimum lease expenses reflects the change in the rental rate as of July 1, 2003.

<u>Fiscal Year Ending June 30</u>	<u>East Flagstaff Library</u>
2004	\$ 61,924
2005	61,924
2006	61,924
2007	61,924
2008	61,924
2009–2013	<u>288,977</u>
Total	\$ <u>598,597</u>

The City has entered into several operating lease agreement, with cancellation provisions, for the purpose of leasing office space and land. Lease expenditures for these items for the period ending June 30, 2003 were \$181,891.

Operating Lease Revenues

The City leases several City-owned buildings under cancelable and non-cancelable agreements. The carrying value of the leased assets is \$5,056,839 (cost of \$5,187,367 less accumulated depreciation of \$130,528) with current depreciation of \$130,528. Certain leases contain provisions for future rate increases based on changes in the Consumer Price Index. Total revenue for fiscal year 2003 was \$790,769. The City currently has two leases with non-cancelable terms. One is for USGS building #2, which is guaranteed through December 2003 and the other is for USGS building #6, which is guaranteed through August 2013. The following table represents the future minimum lease receivable from leases with non-cancelable terms. The amounts shown include revenue related to the asset and the operational expenses.

<u>Fiscal Year Ending June 30</u>	<u>USGS Building #2</u>	<u>USGS Building #6</u>
2004	\$ 64,216	759,171
2005	–	759,617
2006	–	759,617
2007	–	759,617
2008	–	759,617
2009–2013	<u>–</u>	<u>3,165,072</u>
Total	\$ <u>64,216</u>	<u>6,962,711</u>

In addition, the Airport Fund has several leases under cancelable agreements. The leases are for terminal space, hangars, shades, tiedowns, and ground leases. Lease revenue in the Airport fund for fiscal year 2003 was \$513,389. The carrying value of the leased assets is \$3,817,992 (cost of \$6,508,528 less accumulated depreciation of \$2,690,536) with current year depreciation of \$149,635.

F. LONG-TERM DEBT

General Obligation Bonds

The City of Flagstaff issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligations bonds issued in prior years was \$33,984,726. During the year, \$28,122 of accretion had been added to Water and Wastewater General Obligation bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. The Water and Wastewater General Obligation Bonds are backed by the ultimate taxing power and general revenues of the City; however, these bonds are carried as a liability of the Water and Wastewater Fund to reflect the intention of the City to retire those bonds from resources in the Water and Wastewater Fund.

General obligation bonds outstanding at June 30, 2003 are:

Purpose	Amount
Governmental activities	\$ 7,485,000
Business type activities	9,832,848
Business type activities – refunding	<u>13,125,000</u>
	<u>\$30,442,848</u>

General obligation bonds payable at June 30, 2003 are comprised of the following individual issues:

Governmental Activities:

\$5,500,000 Public Safety Bonds, Series 1997 due in annual installments of \$1,105,000 to \$1,380,000, through July 1, 2005; interest at 4.7% to 6.5%.	\$	2,485,000
\$4,000,000 Parks and Recreation Bonds, Series 1997 due in annual installments of \$210,000 to \$530,000 through July 1, 2008; interest rate at 4.6% to 6.5%.		1,900,000
\$3,100,000 Parks and Recreation, Series 2001 due in annual installments of \$385,000 to \$505,000 through July 1, 2014; interest rate at 4.375% to 4.75%.		<u>3,100,000</u>
	\$	<u>7,485,000</u>

Business-type activities:

Water and Wastewater:

\$924,240 Wastewater Improvement Project of 1991 Capital Appreciation Bonds due in three installments: \$595,827 due July 1, 1997, plus interest at 5.8%; \$124,349 due July 1, 2002, plus interest at 6.3%; \$204,064 due July 1, 2007, plus interest at 6.75%. Shown at combined accreted value. \$ 437,849

\$6,000,000 Water Improvement Project Bonds Series 1993, due in annual installments of \$160,000 to \$440,000 through July 1, 2013; interest at 4.75% to 6.75%. Fiscal years 2006–2009 were refunded in April, 2001. 1,580,000

\$8,000,000 Water Improvement Project Bonds Series 1997, due in annual installments of \$215,000 to \$1,680,000, through July 1, 2013; interest at 4.5% to 6.5%. 7,815,000

\$13,845,000 Water and Wastewater **Refunding** Bonds Series 2001, due in annual installments of \$1,510,000 to \$2,350,000 through July 1, 2009; interest at 3% to 5%. 11,450,000
\$ 21,282,849

Airport:

\$2,025,000 Airport **Refunding** Bonds Series 2001 due in annual installments of \$130,000 to \$350,000 through July 1, 2009; interest at 3% to 5%. \$ 1,675,000

Total General Obligation Bonds \$ 30,442,849

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2004	\$ 1,670,000	\$ 347,581	\$ 2,210,000	\$ 1,159,418
2005	1,510,000	270,761	2,280,000	1,077,933
2006	465,000	199,791	2,375,000	824,423
2007	530,000	177,471	3,107,848	871,497
2008	595,000	151,501	2,745,000	605,600
2009–2013	2,210,000	430,213	10,240,000	1,357,925
2014–2017	505,000	23,987	–	–
Total	<u>\$ 7,485,000</u>	<u>\$ 1,601,305</u>	<u>\$ 22,957,848</u>	<u>\$ 5,896,796</u>

Special Assessment Bonds

Proceeds from special assessment bonds are used for improvements such as paving, sidewalks, and sewers. Payments made by the assessed property owners are pledged as collateral. In the event of default by a property owner, the lien created by the assessment is sold at public auction and the proceeds are used to offset the defaulted assessment. If there is no purchase at the public auction, the City is required to buy the property with funds appropriated from the General Fund.

Special assessment bonds outstanding at June 30, 2003 are:

<u>Purpose</u>	<u>Amount</u>
Governmental Activities	\$944,000

Special assessment bonds payable at June 30, 2003 are comprised of the following individual issues:

Governmental Activities

\$1,525,000 1994 Improvement District series bonds due in annual installments of \$55,000 to \$200,000, through January 1, 2005; interest at 5.7%.	\$	390,000
\$720,000 1999 Improvement District series bonds due in annual installments of \$43,000 to \$94,000, through January 1, 2010; interest at 4.9%.		<u>554,000</u>
Total Special Assessment Bonds	\$	<u><u>944,000</u></u>

Annual debt service requirements to maturity for special assessment bonds are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2004	\$ 259,000	\$ 42,270
2005	270,000	27,750
2006	75,000	18,497
2007	76,000	14,799
2008-2010	264,000	19,991
Total	<u>\$ 944,000</u>	<u>\$ 123,307</u>

Revenue Bonds

Highway User Revenue Fund bonds (HURF) are issued specifically for the purpose of constructing street and highway projects. These bonds are repaid out of the HURF fund by gas tax revenues collected by the State of Arizona and distributed to cities and towns based on a formula of population and gas sales within each county.

Water & Sewer Revenue bonds are issued as authorized by the voters for the construction, acquisition, furnishing, and/or equipping of water and sewer facilities and related systems. The City issued \$6,775,760 in Water/Sewer Revenue Bonds, representing the final outstanding authorization amount from the November 1990 election. The Water & Sewer Revenue bonds are collateralized by revenue in excess of operating and maintenance expenses of the City's water & sewer utility system, and are repaid via user charges or fees for service.

Revenue bonds outstanding at June 30, 2003 are:

<u>Purpose</u>	<u>Amount</u>
Governmental activities	\$ 5,580,000
Governmental activities – refunding	9,210,000
Business type activities	<u>6,537,329</u>
	<u>\$21,327,329</u>

Revenue bonds at June 30, 2003 are comprised of the following individual issues:

Governmental activities:

Street Construction:

\$5,580,000 Junior Lien Street and Highway User Revenue Bonds, Series 1992 serial bonds due in installments of \$350,000 to \$1,725,000 through July 1, 2012; interest at 6.12%.

\$ 5,580,000

\$9,375,000 Street and Highway Revenue Refunding Bond Series 2003 serial bonds due in installments of \$165,000 to \$1,940,000 through July 1, 2009; interest at 2% to 3.5%

9,210,000

\$ 14,790,000

Business-type activities:

Water & Sewer:

\$6,775,760 Water and Wastewater Revenue Bonds due in annual installments of \$238,431 to \$462,398 through July 1, 2022; interest at 3.548%.

\$ 6,537,329

Total Revenue Bonds

\$ 21,327,329

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2004	\$ 1,410,000	\$ 607,160	\$ 246,889	\$ 231,912
2005	1,825,000	571,910	255,648	223,153
2006	1,890,000	526,285	264,717	214,084
2007	1,940,000	469,585	274,108	204,693
2008	1,400,000	411,385	283,832	194,969
2009–2013	6,325,000	909,475	1,577,529	816,477
2014–2018	–	–	1,877,913	516,093
2019–2023	–	–	1,756,693	158,512
Total	<u>\$ 14,790,000</u>	<u>\$ 3,495,800</u>	<u>\$ 6,537,329</u>	<u>\$ 2,559,893</u>

Other Debt

Municipal Facility Corporation Bonds

The Municipal Facilities Corporation (MFC) is a non-profit corporation created by the City for the purpose of constructing, acquiring and equipping municipal facilities. In fiscal year 2001 the MFC issued \$4.7 million in bonds for the construction of a new United States Geological Survey (USGS) facility on land owned by the City. The City will make lease payments equal to the debt service and will obtain legal title upon payment in full of the bonds. The City has collateralized the contract payable to the MFC by a pledge of the City's State Shared Revenues which comprise sales and income taxes imposed and collected by the State and distributed to counties and municipal governments pursuant to law and State revenue-sharing which the City presently or in the future receives from the State and which are not earmarked by the State for a contrary or inconsistent purpose.

Municipal facility corporation bonds outstanding at June 30, 2003 are:

Purpose

Governmental Activities

Municipal facility corporation bonds are comprised of the following issue:

\$4,700,000 USGS Project Bonds Series 12 (2001) due in annual installments of \$255,000 to \$440,000 through August 1, 2016; interest at 4% to 4.75% \$ 4,445,000

Annual debt service requirements to maturity for municipal facility corporation bonds are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2004	\$ 265,000	\$ 197,199
2005	275,000	186,599
2006	285,000	175,599
2007	295,000	164,199
2008	310,000	152,399
2009-2013	1,755,000	547,620
2014-2017	1,260,000	121,600
Total	<u>\$ 4,445,000</u>	<u>\$ 1,545,215</u>

Loan Payable

In July 1992 the City of Flagstaff entered into a loan agreement with the Wastewater Management Authority of Arizona for the purpose of constructing reclaimed water lines for the new reclaimed water plant. The \$6,000,000 loan is scheduled to be paid in annual installments over twenty years with an interest rate of 3.402%. The unpaid principal of the loan at June 30, 2003 is \$3,197,726.

In September 1999 the City of Flagstaff entered into a loan agreement with Arizona Department of Transportation Aeronautics Division for the purpose of constructing a 14 unit T hangar and a 12 unit shade hangar. The \$600,000 loan is scheduled to be paid in quarterly installments over 17 years with an annual interest rate of 5.6%. The unpaid principal amount of the loan on June 30, 2003 is \$518,083.

Advance Refundings

The City of Flagstaff issued \$9,375,000 of Street and Highway Revenue bonds in April 2003 to provide resources to purchase U.S. Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$9,125,000 of revenue bonds. As a result, the refunded bonds are considered to be defeased. The advance refunding was undertaken to reduce total debt service payments over the next eight years by \$396,803 and resulted in an economic gain of \$321,874.

Changes in long term liabilities

Non-current liability activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 8,935,000	–	(1,450,000)	7,485,000	1,670,000
Special Assessment Bonds	1,188,000	–	(244,000)	944,000	259,000
Revenue Bonds	16,520,000	–	(1,730,000)	14,790,000	1,410,000
Municipal Facility Corp Bonds	4,700,000	–	(255,000)	4,445,000	265,000
Total Bonds Payable	31,343,000	–	(3,679,000)	27,664,000	3,604,000
Compensated Absences	1,955,046	150,740	(2,799)	2,102,987	101,920
Governmental Activity Long-term Liabilities	<u>\$ 33,298,046</u>	<u>150,740</u>	<u>(3,681,799)</u>	<u>29,766,987</u>	<u>3,705,920</u>
Business-type Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 25,049,726	28,122	(2,120,000)	22,957,848	2,210,000
Water & Sewer Revenue Bonds	–	6,775,760	(238,431)	6,537,329	246,889
Total Bonds Payable	25,049,726	6,803,882	(2,358,431)	29,495,177	2,456,889
Airport Loan Payable	543,136	–	(25,053)	518,083	26,486
Water & Sewer Loan Payable	3,497,183	–	(299,457)	3,197,726	309,645
Compensated Absences	201,109	39,213	–	240,322	13,923
Business-type Activity Long Term Liability	<u>\$ 29,291,154</u>	<u>6,843,095</u>	<u>(2,682,941)</u>	<u>33,451,308</u>	<u>2,806,943</u>

V. OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to torts and public officials' errors and omissions. The City purchases commercial insurance to cover these losses. However, \$50,000 of each claim resulting in a loss is retained by the City. The City provides for the self-insurance retention in the internal service fund. Outstanding claims as of June 30, 2003 have potential exposure to the City of approximately \$411,200 based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The City uses an application of historical experience to determine claims payable. However, due to the preliminary status of the claims, no determination can be made as to the likelihood, if any, of an unfavorable outcome. The retained earnings of the Internal Service Fund are designated for future losses related to the self-insurance retention. Settled claims have not exceeded commercial coverage in the last three fiscal years.

Fiscal Year	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Year Liability
2000-01	105,000	475,407	391,407	189,000
2001-02	189,000	198,808	163,178	224,630
2002-03	224,630	328,835	142,265	411,200

The City of Flagstaff participates in a risk sharing pool for employee health care, through the Northern Arizona Public Employees Trust, a public entity risk pool. Members do not bear any risk of loss. The overall experience rating of the trust determines premium charges.

B. Subsequent events

The City of Flagstaff's sold \$25,000,000 in Municipal Facilities Corporation Revenue Bonds, series 2003 on September 15, 2003.

C. Contingent liabilities

The City is aware of existing environmental contamination at various sites and facilities. The City has annually budgeted monies for these purposes and includes remediation activities in its annual work program. The City has a compliance agreement for Americans with Disability Act with the Department of Justice (DOJ) and until all items are completed to the satisfaction of the DOJ, there remains a minimal amount of liability.

D. Retirement and pension plans

Plan Descriptions – The City contributes to the four plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System (ASRS)* administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the City. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, and Article 2.

The *Public Safety Personnel Retirement System (PSPRS)* is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 162 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The *Elected Officials Retirement Plan (EORP)* is a cost-sharing multiple-employer defined benefit pension plan that covers elected officials and judges of certain state and local governments. The EORP is governed by The Fund Manager of PSPRS according to the provisions of A.S.R. Title 38, Chapter 5, and Article 3.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS

3300 N. Central Ave.
P.O. Box 33910
Phoenix, AZ 85067-3910
(602) 240-2200/(800) 621-3778

PSPRS and EORP

1020 E. Missouri Ave.
Phoenix, AZ 85014
(602) 255-5575

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates.

Cost Sharing Plans – For the year ended June 30, 2003, active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 2.49% (2.00% retirement and 0.49% long-term disability) of the members' annual covered payroll. The City's contributions to ASRS for the years ended June 30, 2003, 2002, and 2001 were \$578,235, \$488,126 and \$450,703, respectively, which were equal to the required contributions for the year.

In addition, active EORP members were required by statute to contribute 7.00% of the members' annual covered payroll. The City was required to contribute 6.97% of the members' annual covered payroll, as determined by actuarial valuation. The City's contributions to EORP for the years ended June 30, 2003, 2002, and 2001 were \$1,861, \$3,928 and \$2,641 respectively, which were equal to the required contributions for the year. In addition, a payment of \$4,220 was made in each year as an installment due for its unfunded accrued liability.

Agent Plan – For the year ended June 30, 2003, active PSPRS members were required by statute to contribute 7.65% of the members' annual covered payroll, and the City was required to contribute at the actuarially determined rate of 9.33% and 4.72 % for Police and Fire respectively.

Annual Pension Cost – The City's pension cost for the agent plan for the year ended June 30, 2002, the date of the most recent actuarial valuation, and related information follow.

<u>Contribution rates:</u>	<u>PSPRS</u>
City – Police	9.33%
City – Fire	4.72%
Plan members	7.65%
Annual pension cost	\$ 278,805
Contributions made	\$ 278,805
Actuarial valuation date	6/30/03
Actuarial cost method	Individual entry age
Actuarial assumptions:	
Investment rate of return	9.0%
Projected salary increases	6.5% – 9.5%
Includes inflation at	5.5%
Amortization method	Level percentage open
Remaining amortization	
period from 7-1-00	20 years
Asset valuation method	Smoothed market value

Trend Information – Information for the agent plan as of most recent actuarial valuations follows.

Contributions Required and Contributions Made

Plan	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS 2003			
Police	\$199,908	100%	\$ -0-
Fire	\$ 78,897	100%	-0-
PSPRS 2002			
Police	\$252,029	100%	\$ -0-
Fire	\$126,024	100%	-0-
PSPRS 2001			
Police	\$312,287	100%	\$ -0-
Fire	\$122,642	100%	-0-

Funding Progress – An analysis of funding progress for each of the agent plans as of the most recent actuarial valuations, June 30, 2002 follows.

	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Percent Funded (1) / (2)	(4) Unfunded AAL (2) – (1)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percentage of Covered Payroll (4)/(5)
PSPRS 2002						
Police	\$ 23,377,239	\$ 22,375,146	104.5%	\$ (1,002,093)	\$ 4,415,016	-%
Fire	33,288,928	27,957,056	119.1%	(5,331,872)	3,944,841	-%
PSPRS 2001						
Police	23,526,642	19,303,399	121.9%	(4,223,243)	4,330,952	-%
Fire	33,219,516	24,683,085	134.6%	(8,536,431)	4,545,100	-%
PSPRS 2000						
Police	21,580,340	18,497,514	116.7%	(3,082,826)	3,983,197	-%
Fire	30,387,399	21,940,616	138.5%	(8,446,738)	3,982,782	-%

VOLUNTEER FIREMEN'S RELIEF AND PENSION FUND

The Volunteer Firemen's Relief and Pension Fund ("Fund") is a single-employer defined benefit pension trust fund administered by the City. A fireman having served as a member of the City's Fire Department prior to 1978, and who is not a paid member of a fire department or a member of the Public Safety Retirement System, is eligible to receive benefits.

The fund does not issue a stand-alone report or is included in any other report than the City's.

A fireman who has served for 25 years or more, or who has reached sixty years of age, and served twenty years or more, shall be paid a monthly pension not to exceed \$250 per month based on the benefits available to members of the fire department as determined by the board of trustees. Such pension may be increased or decreased in amount, or discontinued at the discretion of the Fund's board of trustees. The Fund's funding provisions and all other requirements are established by state statute.

At June 30, 2003, the number of firemen covered by the Fund was classified as follows:

Retirees and beneficiaries currently receiving benefits	3
Active employees:	
Non-vested	<u>3</u>
Total covered firemen	<u>6</u>

Funding Status and Progress:

Per state statute there is no requirement that an actuarial valuation be performed to determine that the Volunteer Firemen's Relief and Pension Fund is fully funded. If the funds provided in the Fund are insufficient to pay fully the pensions authorized pursuant to the statute, the fund shall be prorated among those entitled thereto.

Contributions:

State statute requires a 5% contribution of annual compensation each from the City and the employee. Because no compensation was paid by the City to volunteer firemen, no contribution was made during the current fiscal year. No member or City contributions have been made to this fund since fiscal year ended June 30, 1979.

Trend Information:

Trend information for ten years is presented below:

Fiscal Year June 30	Net Assets Available for Benefits	Revenues				Expenses
		Employee Contributions	Employer Contributions	Investment Income	Other Income	Benefit Payments
1994	202,469	-	-	7,533	158	4,800
1995	209,232	-	-	11,396	166	4,800
1996	211,198	-	-	11,390	177	9,601
1997	213,721	-	-	11,922	201	9,600
1998	216,843	-	-	12,332	390	9,600
1999	218,401	-	-	11,068	89	9,600
2000	221,678	-	-	12,877	-	9,600
2001	226,593	-	-	13,620	96	8,800
2002	226,632	-	-	7,125	114	7,200
2003	221,202	-	-	4,630	122	7,200

E. Landfill closure and postclosure care cost

State and federal laws and regulations require the City to place a final cover on its Cinderlake landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The estimated liability for landfill closure and postclosure care costs has a balance of \$12,156,687 as of June 30, 2003, which is based on 85.6 percent usage of the landfill. The remaining \$2,039,787 will be accrued over the remaining life of the landfill, which is currently estimated to be 5 years. The accrual for these closure and postclosure care costs for fiscal year 2003 was \$633,757. Based on current estimates for landfill closure and postclosure care costs, the City is setting aside legally restricted funds to insure sufficient funds will be available to meet these requirements. The City makes annual contributions to finance closure and postclosure care costs; at June 30, 2003 the balance of the investments held for those purposes is \$4,305,251. These investments are reported as restricted cash and investments in the City's Environmental Service Fund, and are held by the State of Arizona Local Government Investment Pool.

The estimated total current cost of the landfill closure and postclosure care, \$14,196,474, is based on the amount that would be paid if all equipment, facilities, and services required to care, monitor and maintain the landfill were acquired as of June 30, 2003. However, the actual cost of closure and postclosure care may be higher or lower due to other factors such as; inflation, changes in technology, or changes in landfill laws and regulations.

According to state and federal laws and regulations, the City must comply with the local government financial test requirements that assure the City can meet the cost of landfill closure, post-closure and corrective action

when needed. The City, which has pledged its full faith and credit to meet state financial responsibility requirements, is in compliance with these requirements.

In March of 1999, the City purchased 343.9 acres of land from the Forest Service. This land is adjacent to the existing landfill and will be used to open additional cells as needed. As these cells are utilized, additional liabilities for closure and postclosure care requirements will be accrued. The City applied existing policy to the Environmental Services Fund increasing its' expenditures as City residential and commercial collection programs are now charged for landfill fees.

NON-MAJOR FUNDS

OTHER GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds are used to account for revenues derived from specific taxes or other earmarked revenue sources. They are usually required by statute, charter provision or ordinance to finance particular functions or activities.

Library Fund

The City Library is financed through City sales tax allocations, State and County grants and individual contributions. Funds provided must be used for library activities such as cultural and educational programs and technical services.

Real Estate Proceeds Fund

This fund was established by the City Council by resolution in fiscal year 1985–86 to account for the proceeds received from the sale of excess real estate.

Community Redevelopment

This fund was established in fiscal year 1997 to account for the funding received for the Community Development Block Grant program and affordable housing activities.

Metropolitan Planning Organization

This fund was established in fiscal year 1997 to account for funding derived from the City's status as a Metropolitan Planning Organization.

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

General Obligation Bond

This fund accounts for the accumulation of resources for and the payments of principal, interest and costs of General Obligation Bonds.

Special Assessment Bond Fund

This fund accounts for the accumulation of resources for and the payment of principal, interest and related costs for all improvement district bonds issued by the City.

Secondary Property Tax Revenue Fund

This fund is used to account for secondary property tax revenues. Monies received by this fund are legally restricted to payment of general obligation debt.

Permanent Fund

Permanent funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

Perpetual Care

This fund accounts for the perpetual care of the City's cemetery.

CITY OF FLAGSTAFF, ARIZONA
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2003

	Special Revenue Funds			
	Library Fund	Real Estate Proceed Fund	Community Redevelopment Fund	Metropolitan Planning Organization Fund
ASSETS				
Cash and cash equivalents	\$ 662,512	\$ 1,016,448	\$ 435,673	\$ 6,592
Cash with fiscal agents	-	-	-	-
Accounts receivable, net	779,346	144,101	282	-
Interest receivable	2,484	3,686	407	-
Intergovernmental receivables	-	-	353,017	256,295
Special assessments receivable	-	-	-	-
Restricted cash and cash equivalents	217,425	-	-	-
Total assets	<u>\$ 1,661,767</u>	<u>\$ 1,164,235</u>	<u>\$ 789,379</u>	<u>\$ 262,887</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 68,110	\$ -	\$ 160,372	\$ 10,509
Accrued payroll and compensated absences	51,203	-	-	2,378
Current bonds payable	-	-	-	-
Interest payable	-	-	-	-
Interfund payable	-	-	-	250,000
Deferred revenue	-	143,238	-	-
Liabilities payable from restricted assets	995,164	-	-	-
Total liabilities	<u>1,114,477</u>	<u>143,238</u>	<u>160,372</u>	<u>262,887</u>
Fund balances:				
Reserved for:				
Debt service	-	-	-	-
Perpetual care	-	-	-	-
Unreserved, undesignated, reported in:				
Special revenue funds	547,290	1,020,997	629,007	-
Permanent fund	-	-	-	-
Total fund balances	<u>547,290</u>	<u>1,020,997</u>	<u>629,007</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 1,661,767</u>	<u>\$ 1,164,235</u>	<u>\$ 789,379</u>	<u>\$ 262,887</u>

The notes to the financial statements are an integral part of this statement

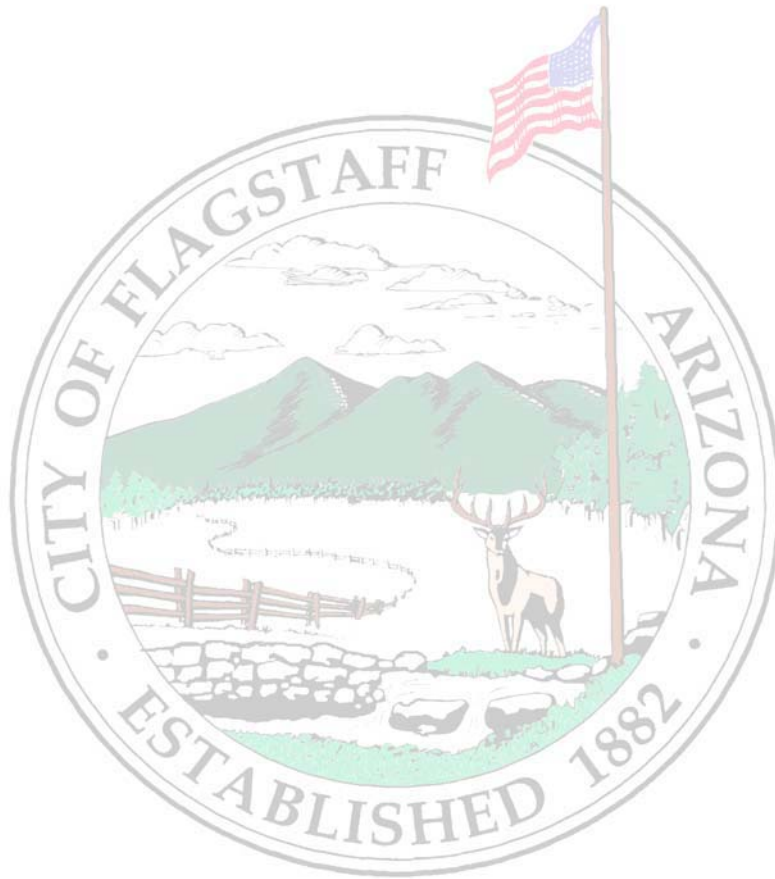
Debt Service Funds			Permanent Fund	
General Obligation Bond Fund	Special Assessment Bond Fund	Secondary Property Tax Revenue Fund	Perpetual Care	Total Other Governmental Funds
\$ 12,149	\$ 496,227	\$ 440,405	\$ 217	\$ 3,070,223
1,670,867	22,752	-	-	1,693,619
-	-	-	90	923,819
-	-	-	-	6,577
-	-	-	-	609,312
-	544,134	-	-	544,134
-	-	-	12,300	229,725
<u>\$ 1,683,016</u>	<u>\$ 1,063,113</u>	<u>\$ 440,405</u>	<u>\$ 12,607</u>	<u>\$ 7,077,409</u>
\$ -	\$ 1,063	\$ -	\$ -	\$ 240,054
-	-	-	-	53,581
1,450,000	-	-	-	1,450,000
221,493	23,025	-	-	244,518
-	-	-	-	250,000
-	544,134	-	-	687,372
-	-	-	-	995,164
<u>1,671,493</u>	<u>568,222</u>	<u>-</u>	<u>-</u>	<u>3,920,689</u>
11,523	494,891	440,405	-	946,819
-	-	-	12,390	12,390
-	-	-	-	2,197,294
-	-	-	217	217
<u>11,523</u>	<u>494,891</u>	<u>440,405</u>	<u>12,607</u>	<u>3,156,720</u>
<u>\$ 1,683,016</u>	<u>\$ 1,063,113</u>	<u>\$ 440,405</u>	<u>\$ 12,607</u>	<u>\$ 7,077,409</u>

CITY OF FLAGSTAFF, ARIZONA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
Year Ended June 30, 2003

	Special Revenue Funds		
	Library Fund	Real Estate Proceed Fund	Community Redevelopment Fund
REVENUES:			
Taxes	\$ -	\$ -	\$ -
Grants and entitlements	1,661,634	-	645,214
Special assessments	-	-	-
Investment earnings	7,336	21,799	1,541
Contributions	-	-	-
Miscellaneous	28,495	-	155,216
Total revenues	<u>1,697,465</u>	<u>21,799</u>	<u>801,971</u>
EXPENDITURES:			
Current:			
Economic and physical development	-	-	1,009,965
Culture and recreation	2,870,286	-	-
Debt service:			
Principal retirement	-	-	-
Interest and other charges	-	-	-
Capital outlay	417,287	249,889	-
Total expenditures	<u>3,287,573</u>	<u>249,889</u>	<u>1,009,965</u>
Excess (deficiency) of revenues over expenditures	<u>(1,590,108)</u>	<u>(228,090)</u>	<u>(207,994)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	1,127,079	150,000	375,400
Transfers out	-	-	-
Total other financing sources (uses)	<u>1,127,079</u>	<u>150,000</u>	<u>375,400</u>
Net change in fund balances	<u>(463,029)</u>	<u>(78,090)</u>	<u>167,406</u>
Fund balances, beginning of year as restated	<u>1,010,319</u>	<u>1,099,087</u>	<u>461,601</u>
Fund balances, end of year	<u>\$ 547,290</u>	<u>\$ 1,020,997</u>	<u>\$ 629,007</u>

The notes to the financial statements are an integral part of this statement

Metropolitan Planning Organization Fund	Debt Service Funds			Permanent Fund	Total Other Governmental Funds
	General Obligation Bond Fund	Special Assessment Bond Fund	Secondary Property Tax Revenue Fund	Perpetual Care	
\$ -	\$ -	\$ -	\$ 4,415,081	\$ -	\$ 4,415,081
315,893	-	-	-	-	2,622,741
-	-	360,158	-	-	360,158
-	63	82,124	2,284	187	115,334
-	-	-	-	7,435	7,435
-	-	(2,856)	-	-	180,855
315,893	63	439,426	4,417,365	7,622	7,701,604
315,893	-	-	-	-	1,325,858
-	-	-	-	-	2,870,286
-	1,450,000	244,000	-	-	1,694,000
-	441,983	57,272	-	-	499,255
-	-	-	-	-	667,176
315,893	1,891,983	301,272	-	-	7,056,575
-	(1,891,920)	138,154	4,417,365	7,622	645,029
-	1,891,662	-	-	-	3,544,141
-	-	-	(4,290,199)	-	(4,290,199)
-	1,891,662	-	(4,290,199)	-	(746,058)
-	(258)	138,154	127,166	7,622	(101,029)
-	11,781	356,737	313,239	4,985	3,257,749
\$ -	\$ 11,523	\$ 494,891	\$ 440,405	\$ 12,607	\$ 3,156,720



Other Supplementary Information

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City of Flagstaff, Arizona
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity
June 30, 2003

Program	Land	Buildings	Improvements	Machinery and Equipment
General government	\$ 4,557,137	\$ 12,252,201	\$ 16,142	\$ 3,042,313
Public safety	265,259	12,038,695	61,303	6,583,875
Public works	-	5,924,036	192,887	918,077
Economic and physical development	1,292,918	826,235	12,983	796,912
Culture and recreation	3,008,700	2,389,283	11,017,258	2,444,811
Highway and streets	718,475	102,310	1,934,792	6,367,240
Subtotal	9,842,489	33,532,760	13,235,365	20,153,228
Less: accumulated depreciation	-	(9,148,320)	(5,472,888)	(11,530,493)
Total governmental funds capital assets	<u>\$ 9,842,489</u>	<u>\$ 24,384,440</u>	<u>\$ 7,762,477</u>	<u>\$ 8,622,735</u>

Infrastructure	Construction In Progress	Total
\$ -	\$ 5,316,821	\$ 25,184,614
-	-	18,949,132
-	-	7,035,000
-	-	2,929,048
52,752	-	18,912,804
10,926,574	6,433,805	26,483,196
<u>10,979,326</u>	<u>11,750,626</u>	<u>99,493,794</u>
(133,354)	-	(26,285,055)
<u>\$ 10,845,972</u>	<u>\$ 11,750,626</u>	<u>\$ 73,208,739</u>

City of Flagstaff, Arizona
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes By Function and Activity
June 30, 2003

Program	Balance July 1, 2002	Additions	Retirements	Transfers In (out)	Balance June 30, 2003
General government	\$ 23,920,474	\$ 1,264,140.00	\$ -	\$ -	\$ 25,184,614
Public safety	18,068,539	890,468	(9,875)	-	18,949,132
Public works	7,048,330	31,950	(45,280)	-	7,035,000
Economic and physical development	1,850,143	1,078,905	-	-	2,929,048
Culture and recreation	14,486,157	4,432,105	(5,458)	-	18,912,804
Highway and streets	15,979,323	10,606,593	(102,720)	-	26,483,196
Total	<u>\$ 81,352,966</u>	<u>\$ 18,304,161</u>	<u>\$ (163,333)</u>	<u>\$ -</u>	<u>\$ 99,493,794</u>

CITY OF FLAGSTAFF, ARIZONA
Library Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2003

	Budget		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget
				Positive
				(Negative)
REVENUES:				
Grants and entitlements	\$ 2,148,652	\$ 2,148,652	\$ 1,661,634	\$ (487,018)
Investment earnings	15,000	15,000	7,336	(7,664)
Miscellaneous	45,000	45,000	28,495	(16,505)
Total revenues	<u>2,208,652</u>	<u>2,208,652</u>	<u>1,697,465</u>	<u>(511,187)</u>
EXPENDITURES:				
Current:				
Culture and recreation	3,303,404	3,303,404	2,870,286	(433,118)
Capital outlay	445,994	445,994	417,287	(28,707)
Contingency	100,000	100,000	–	(100,000)
Total expenditures	<u>3,849,398</u>	<u>3,849,398</u>	<u>3,287,573</u>	<u>(561,825)</u>
Excess (deficiency) of revenues over expenditures	<u>(1,640,746)</u>	<u>(1,640,746)</u>	<u>(1,590,108)</u>	<u>50,638</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,127,079	1,127,079	1,127,079	–
Transfers out	<u>(250,000)</u>	<u>(250,000)</u>	<u>–</u>	<u>250,000</u>
Total other financing sources (uses)	<u>877,079</u>	<u>877,079</u>	<u>1,127,079</u>	<u>250,000</u>
Net change in fund balances	<u>(763,667)</u>	<u>(763,667)</u>	<u>(463,029)</u>	<u>300,638</u>
Fund balances, beginning of year	<u>1,030,054</u>	<u>1,030,054</u>	<u>1,012,850</u>	<u>(17,204)</u>
Fund balances, end of year	<u>\$ 266,387</u>	<u>\$ 266,387</u>	<u>549,821</u>	<u>\$ 283,434</u>
Adjustment from budgetary basis to generally accepted accounting basis:				
Compensated absences – prior year adjustment			(2,531)	
Fund balance – GAAP basis			<u>\$ 547,290</u>	

CITY OF FLAGSTAFF, ARIZONA
Real Estate Proceeds Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2003

	Budget		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget
				Positive (Negative)
REVENUES:				
Investment earnings	\$ 26,350	\$ 26,350	\$ 21,799	(4,551)
Miscellaneous	297,000	297,000	-	(297,000)
Total revenues	323,350	323,350	21,799	(301,551)
EXPENDITURES:				
Capital outlay	785,000	785,000	249,889	(535,111)
Total expenditures	785,000	785,000	249,889	(535,111)
Excess (deficiency) of revenues over expenditures	(461,650)	(461,650)	(228,090)	233,560
OTHER FINANCING SOURCES (USES):				
Transfers in	150,000	150,000	150,000	-
Total other financing sources (uses)	150,000	150,000	150,000	-
Net change in fund balances	(311,650)	(311,650)	(78,090)	233,560
Fund balances, beginning of year	1,096,790	1,096,790	1,099,087	2,297
Fund balances, end of year	\$ 785,140	\$ 785,140	\$ 1,020,997	\$ 235,857

CITY OF FLAGSTAFF, ARIZONA
Community Redevelopment Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2003

	Budget		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget
				Positive (Negative)
REVENUES:				
Grants and entitlements	\$ 1,547,207	\$ 1,547,207	\$ 645,214	\$ (901,993)
Investment earnings	3,000	3,000	1,541	(1,459)
Miscellaneous	–	–	155,216	155,216
Total revenues	<u>1,550,207</u>	<u>1,550,207</u>	<u>801,971</u>	<u>(748,236)</u>
EXPENDITURES:				
Current:				
Economic and physical development	<u>2,012,172</u>	<u>2,012,172</u>	<u>1,009,965</u>	<u>(1,002,207)</u>
Total expenditures	<u>2,012,172</u>	<u>2,012,172</u>	<u>1,009,965</u>	<u>(1,002,207)</u>
Excess (deficiency) of revenues over expenditures	<u>(461,965)</u>	<u>(461,965)</u>	<u>(207,994)</u>	<u>253,971</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	<u>375,400</u>	<u>375,400</u>	<u>375,400</u>	<u>–</u>
Total other financing sources (uses)	<u>375,400</u>	<u>375,400</u>	<u>375,400</u>	<u>–</u>
Net change in fund balances	<u>(86,565)</u>	<u>(86,565)</u>	<u>167,406</u>	<u>253,971</u>
Fund balances, beginning of year	<u>86,879</u>	<u>86,879</u>	<u>461,601</u>	<u>374,722</u>
Fund balances, end of year	<u>\$ 314</u>	<u>\$ 314</u>	<u>\$ 629,007</u>	<u>\$ 628,693</u>

CITY OF FLAGSTAFF, ARIZONA
Metropolitan Planning Organization Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2003

	Budget		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget
				Positive
				(Negative)
REVENUES:				
Grants and entitlements	\$ 265,666	\$ 265,666	\$ 315,893	\$ 50,227
Total revenues	265,666	265,666	315,893	50,227
EXPENDITURES:				
Current:				
Economic and physical development	265,666	315,666	315,893	227
Total expenditures	265,666	315,666	315,893	227
Excess (deficiency) of revenues over expenditures	-	(50,000)	-	50,000
Net change in fund balances	-	(50,000)	-	50,000
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	\$ -	\$ (50,000)	\$ -	\$ 50,000

CITY OF FLAGSTAFF, ARIZONA
General Obligation Bond Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2003

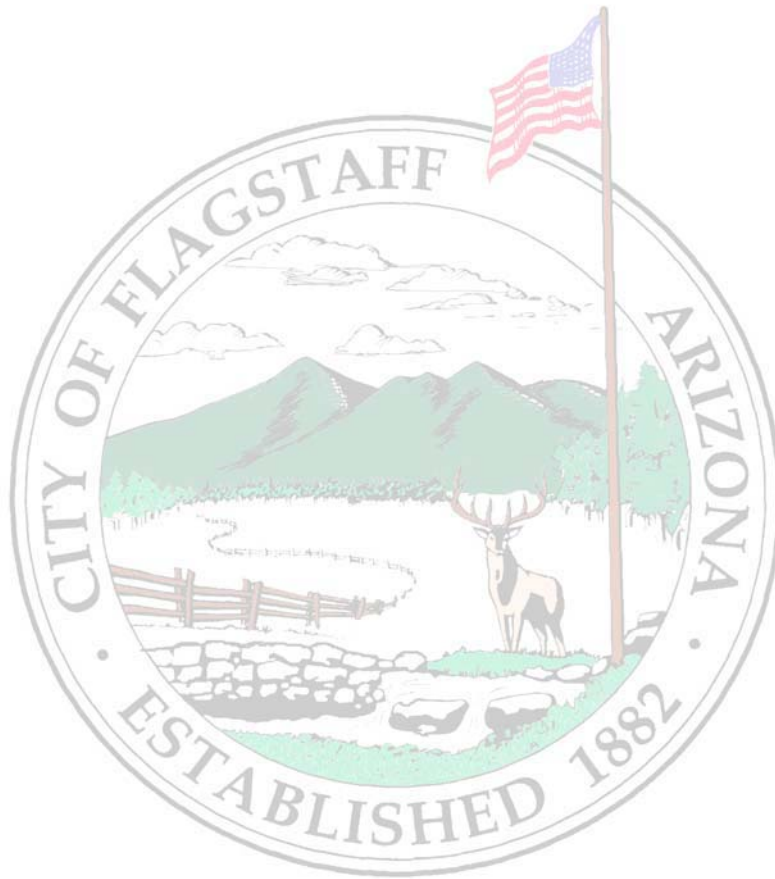
	Budget		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget
				Positive (Negative)
REVENUES:				
Miscellaneous	\$ 300	\$ 300	\$ 63	\$ (237)
Total revenues	300	300	63	(237)
EXPENDITURES:				
Debt service:				
Principal retirement	1,450,000	1,450,000	1,450,000	-
Interest and other charges	443,731	443,731	441,983	(1,748)
Total expenditures	1,893,731	1,893,731	1,891,983	(1,748)
Excess (deficiency) of revenues over expenditures	(1,893,431)	(1,893,431)	(1,891,920)	1,511
OTHER FINANCING SOURCES (USES):				
Transfers in	1,891,831	1,891,831	1,891,662	(169)
Total other financing sources (uses)	1,891,831	1,891,831	1,891,662	(169)
Net change in fund balances	(1,600)	(1,600)	(258)	1,342
Fund balances, beginning of year	10,049	10,049	11,781	1,732
Fund balances, end of year	\$ 8,449	\$ 8,449	\$ 11,523	\$ 3,074

CITY OF FLAGSTAFF, ARIZONA
Special Assessment Bond Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2003

	Budget		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget
				Positive (Negative)
REVENUES:				
Special assessments	\$ 207,035	\$ 207,035	\$ 360,158	\$ 153,123
Investment earnings	46,674	46,674	82,124	35,450
Miscellaneous	–	–	(2,856)	(2,856)
Total revenues	<u>253,709</u>	<u>253,709</u>	<u>439,426</u>	<u>185,717</u>
EXPENDITURES:				
Debt service:				
Principal retirement	244,000	244,000	244,000	–
Interest and other charges	<u>57,274</u>	<u>57,274</u>	<u>57,272</u>	<u>(2)</u>
Total expenditures	<u>301,274</u>	<u>301,274</u>	<u>301,272</u>	<u>(2)</u>
Excess (deficiency) of revenues over expenditures	<u>(47,565)</u>	<u>(47,565)</u>	<u>138,154</u>	<u>185,719</u>
Fund balances, beginning of year	<u>336,866</u>	<u>336,866</u>	<u>356,737</u>	<u>19,871</u>
Fund balances, end of year	<u>\$ 289,301</u>	<u>\$ 289,301</u>	<u>\$ 494,891</u>	<u>\$ 205,590</u>

CITY OF FLAGSTAFF, ARIZONA
Secondary Property Tax Revenue Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
Year Ended June 30, 2003

	Budget		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget
				Positive
				(Negative)
REVENUES:				
Taxes	\$ 4,358,257	\$ 4,358,257	\$ 4,415,081	\$ 56,824
Miscellaneous	7,800	7,800	2,284	(5,516)
Total revenues	<u>4,366,057</u>	<u>4,366,057</u>	<u>4,417,365</u>	<u>51,308</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(4,304,411)	(4,304,411)	(4,290,199)	14,212
Total other financing sources (uses)	<u>(4,304,411)</u>	<u>(4,304,411)</u>	<u>(4,290,199)</u>	<u>14,212</u>
Net change in fund balances	<u>61,646</u>	<u>61,646</u>	<u>127,166</u>	<u>65,520</u>
Fund balances, beginning of year	<u>311,268</u>	<u>311,268</u>	<u>313,239</u>	<u>1,971</u>
Fund balances, end of year	<u>\$ 372,914</u>	<u>\$ 372,914</u>	<u>\$ 440,405</u>	<u>\$ 67,491</u>



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Table I
City of Flagstaff, Arizona
Government-Wide Expenses by Function
Last Ten Fiscal Years

Fiscal Year	General Government	Public Safety	Public Works	Economic and Physical Development	Culture and Recreation	Highways and Streets	Interest on Long Tem Debt	Water and Wastewater	Environmental Services	Airport	Total
2003	\$ 4,840,896	\$ 18,270,468	\$ 1,169,302	\$ 7,272,115	\$ 8,467,575	\$ 6,184,553	\$ 1,380,182	\$ 16,142,040	\$ 7,556,614	\$ 3,411,603	\$ 74,695,348

The City implemented GASB 34 for the fiscal year ended June 30, 2003.
Prior statements have not been restated to comply with the new requirements.
These amounts are presented on the accrual basis of accounting.

Table II
City of Flagstaff, Arizona
Government-Wide Revenues
Last Ten Fiscal Years

Fiscal Year	Program Revenues			General Revenues					Total
	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Property Tax	Sales Tax	State Shared Tax	Investment Earnings	Miscellaneous	
2003	\$ 32,550,332	\$ 3,810,679	\$ 19,106,918	\$ 8,010,293	\$ 23,805,566	\$ 12,073,108	\$ 383,111	\$ 952,308	\$ 100,692,315

The City implemented GASB 34 for the fiscal year ended June 30, 2003.
Prior statements have not been restated to comply with the new requirements.
These amounts are presented on the accrual basis of accounting.

Table III

City of Flagstaff, Arizona
General Government Expenditures by Function
Last Ten Fiscal Years

Fiscal Year	General Government	Public Safety	Public Works Development	Economic and Physical Development	Culture and Recreation	Highway and Streets	Debt Service	Capital	Total
2003	\$ 4,453,180	\$ 17,202,980	\$ 948,944	\$ 7,060,275	\$ 7,599,703	\$ 5,676,050	\$ 5,059,182	\$ 18,304,161	\$ 66,304,475

Includes all governmental fund types.

The City implemented GASB 34 for the fiscal year ended June 30, 2003.

Prior statements have not been restated to comply with the new requirements.

These amounts are presented on the modified accrual basis of accounting.

Table IV

City of Flagstaff, Arizona
General Government Revenues by Source
Last Ten Fiscal Years

Fiscal Year	Taxes	Licenses and Permits	Intergovernmental Revenues	Charges for Services	Fines and Forfeits	Other Revenues	Total
1994	\$ 16,696,324	\$ 653,521	\$ 14,637,139	\$ 580,640	\$ 660,098	\$ 1,782,470	\$ 35,010,192
1995	17,576,915	834,368	15,322,232	720,238	572,728	3,450,303	38,476,784
1996	18,112,121	1,322,309	16,095,776	872,608	808,543	1,581,552	38,792,909
1997	18,776,929	1,279,410	17,704,496	871,284	782,451	2,333,295	41,747,865
1998	19,576,193	1,246,090	19,079,704	920,566	783,854	2,497,159	44,103,566
1999	20,582,542	1,335,184	22,621,143	837,373	838,306	2,468,401	48,682,949
2000	22,197,133	1,324,340	26,778,117	1,030,249	837,695	5,243,779	57,411,313
2001	28,340,957	1,318,450	26,203,650	1,025,625	993,585	3,570,180	61,452,447
2002	30,986,091	2,014,357	24,008,885	1,676,615	991,131	3,520,493	63,197,572
2003	31,523,875	2,378,728	24,820,870	1,729,275	1,303,069	2,595,804	64,351,621

Includes all governmental fund types.

Table V
City of Flagstaff
Tax Revenues by Source
Last Ten Fiscal Years

Fiscal Year	General Property Tax	Secondary Property Tax	Franchise and Other Taxes	City Sales Tax	Bed, Board and Booze Tax	Transportation Tax	Total
1994	\$ 1,806,265	\$ 3,993,710	\$ 1,274,705	\$ 6,763,872	\$ 2,857,772	\$ -	\$ 16,696,324
1995	1,868,077	4,062,533	1,304,684	7,362,140	2,979,481	-	17,576,915
1996	2,137,125	3,344,441	1,260,317	8,240,709	3,129,529	-	18,112,121
1997	2,243,818	3,402,803	1,358,283	8,491,913	3,280,112	-	18,776,929
1998	2,405,865	3,355,628	1,512,456	8,966,287	3,335,957	-	19,576,193
1999	2,577,557	3,537,987	1,560,789	9,369,406	3,536,803	-	20,582,542
2000	2,759,130	3,777,091	1,505,710	10,510,380	3,644,822	-	22,197,133
2001	2,853,091	3,896,103	1,690,043	10,810,658	3,747,822	5,343,240	28,340,957
2002	3,070,491	4,197,777	1,790,846	11,782,781	3,817,028	6,327,168	30,986,091
2003	3,427,509	4,415,081	1,783,098	11,468,608	3,826,975	6,602,604	31,523,875

Table VI
City of Flagstaff, Arizona
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Total Collections as a Percent of Current Levy	Outstanding Delinquent Collections	Outstanding Delinquent Taxes as a Percent of Current Levy
1994	\$ 5,743,129	\$ 5,492,103	95.6%	\$ 307,872	\$ 5,799,975	101.0%	\$ 326,269	5.7%
1995	5,910,644	5,610,061	94.9%	320,549	5,930,610	100.3%	186,826	3.2%
1996	5,424,449	5,400,777	99.6%	80,789	5,481,566	101.1%	265,339	4.9%
1997	5,638,222	5,566,676	98.7%	79,945	5,646,621	100.1%	248,572	4.4%
1998	5,754,253	5,651,170	98.2%	110,323	5,761,493	100.1%	217,244	3.8%
1999	6,138,071	6,036,950	98.4%	78,594	6,115,544	99.6%	216,717	3.5%
2000	6,526,010	6,443,879	98.7%	92,342	6,536,221	100.2%	211,305	3.2%
2001	6,936,955	6,658,250	96.0%	90,944	6,749,194	97.3%	218,230	3.1%
2002	7,271,109	7,194,162	98.9%	74,106	7,268,268	100.0%	257,060	3.5%
2003	7,613,349	7,625,852	100.2%	92,457	7,718,309	101.0%	292,203	3.8%

Table VII

City of Flagstaff, Arizona
Primary Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Property		Personal Property		Total		Ratio of Total Assessed Value to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1994	\$ 263,143,187	\$ 1,807,219,306	\$ 12,656,223	\$ 63,521,760	\$ 275,799,410	\$ 1,870,741,066	1 – 6.8
1995	272,017,549	1,972,867,568	22,083,172	88,333,062	294,100,721	2,061,200,630	1 – 7.0
1996	285,152,896	2,097,918,383	20,719,183	82,906,354	305,872,079	2,180,824,737	1 – 7.1
1997	317,127,846	2,352,739,798	12,461,600	103,490,735	329,589,446	2,456,230,533	1 – 7.5
1998	329,932,001	2,458,882,909	22,781,372	97,754,981	352,713,373	2,556,637,890	1 – 7.2
1999	353,421,490	2,642,062,329	22,180,026	98,903,475	375,601,516	2,740,965,804	1 – 7.3
2000	379,547,012	2,802,287,566	30,717,569	137,001,286	410,264,581	2,939,288,852	1 – 7.2
2001	400,324,857	2,834,495,586	52,116,286	234,449,089	452,441,143	3,068,944,675	1 – 6.8
2002	427,130,788	3,023,897,189	53,042,977	238,857,013	480,173,765	3,262,754,202	1 – 6.8
2003	444,529,682	3,188,608,091	54,874,705	249,515,175	499,404,387	3,438,123,266	1 – 6.9

Table VIII

**City of Flagstaff, Arizona
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years**

Fiscal Year	City	School District	Community College	County	State	Total
1994	2.1014	6.3515	0.3671	1.1650	0.4700	10.4550
1995	2.0823	6.3778	0.3706	1.1622	0.4700	10.4629
1996	1.7983	6.7903	0.3728	1.1472	0.4700	10.5786
1997	1.8283	6.5237	0.3784	1.1386	-	9.8690
1998	1.7127	6.6634	0.3869	1.1168	-	9.8798
1999	1.7127	6.5477	0.3952	1.1094	-	9.7650
2000	1.7127	6.5585	0.5947	1.1444	-	10.0103
2001	1.7127	6.6885	0.5724	1.1336	-	10.1072
2002	1.7127	6.6741	0.5717	1.0951	-	10.0536
2003	1.7127	6.7590	0.5809	1.1941	-	10.2467

Note: Tax rates are per \$100 assessed valuation.

Table IX
City of Flagstaff, Arizona
Principal Taxpayers
Tax Year 2003

Taxpayer	Type of Business	Net Assessed Valuation	As a Percentage of the City Total Secondary Assessed Valuation
Citizens Communications Co.	Utility	\$ 11,928,523	2.57%
Arizona Public Service Company (T&D)	Utility	10,904,209	2.35%
Qwest Corporation	Utility	9,888,282	2.13%
W L Gore & Associates Inc.	Manufacturer	9,024,038	1.94%
Ralston Purina	Manufacturer	5,081,044	1.09%
Little America Refining Co.	Hotel/Tourism	4,266,517	0.92%
Flagstaff Mall Associated Ltd. Partnership	Shopping Center	3,250,000	0.70%
Consolidated Investment Co. Inc.	Real Estate	3,197,108	0.69%
Walgreen Arizona Drug Co.	Retail	2,656,145	0.57%
SACO Management Inc.	Property Management	2,268,475	0.49%
Total Principal Taxpayers		62,464,341	13.45%
Other Taxpayers		401,793,545	86.55%
Total Secondary Assessed Valuation		\$ 464,257,886	100.00%

Source: Arizona Department of Revenue, Central Information Services

Table X
City of Flagstaff, Arizona
Special Assessment Collections
Last Ten Fiscal Years

Fiscal Year	Current Assessments Due	Current Assessments Collected (1)	Ratio of Collections to Amounts Due	Total Outstanding Current and Delinquent Assessments (2)
1994	\$ -	\$ -	N/A	\$ 3,408
1995	-	-	N/A	3,408
1996	53,958	53,958	100.00%	3,408
1997	127,535	132,847	104.17%	1,058
1998	136,791	170,026	124.30%	-
1999	137,661	157,640	114.51%	-
2000	145,142	175,863	121.17%	529
2001	186,494	269,794	144.67%	5,379
2002	207,154	350,894	169.39%	5,923
2003	206,129	360,158	174.72%	-

(1) Includes prepayments.

(2) Includes principal and interest.

Table XI
City of Flagstaff, Arizona
Computation of Legal Debt Margin
June 30, 2003

Secondary Assessed Value (1)		\$ 464,257,886
<u>Special Improvement Legal Debt Margin</u>		
Debt Limit 20 Percent of Assessed Value – Special Improvements		\$ 92,851,577
Amount of Debt Applicable to Debt Limit		
Total Bonded Debt	\$ 29,396,849	
Less:		
Current Portion	2,170,000	
Other Deductions Allowed by Law:		
Special Assessment Bonds	944,000	
Total Amount of Debt Applicable to Debt Limit		26,282,849
Legal Debt Margin Available for Water, Sewer, Light, Parks and Open Space Projects		\$ 66,568,728
<u>General Legal Debt Margin</u>		
Debt Limit 6 Percent of Assessed Value – General		\$ 27,855,473
Amount of Debt Applicable to Debt Limit		
Total Bonded Debt	\$ 26,780,000	
Less:		
Current Portion	3,385,000	
Other Deductions Allowed by Law:		
Other Debt	4,445,000	
Highway User Revenue Bonds	14,790,000	
Total Amount of Debt Applicable to Debt Limit		4,160,000
Legal Debt Margin – Available for All Other Projects		\$ 23,695,473

(1) Abstract published by the Arizona State Department of Revenue.

Table XII

City of Flagstaff, Arizona
Percent of Net General Bonded Debt to Secondary Assessed Value
and Net General Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Population (1)	Secondary Assessed Value (2)	Gross Bonded Debt	Less Current Portion	Net Bonded Debt	Percent of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
1994	50,774	\$ 270,619,542	\$ 47,548,493	\$ 3,585,000	\$ 43,963,493	16%	\$ 865.87
1995	52,701 *	284,954,647	44,029,701	4,270,000	39,759,701	14%	754.44
1996	53,966	294,100,721	39,830,151	3,595,000	36,235,151	12%	671.44
1997	55,885	310,066,911	53,809,898	4,371,000	49,438,898	16%	884.65
1998	58,145	340,743,258	49,470,273	4,170,000	45,300,273	13%	779.09
1999	59,945	362,625,557	45,333,746	4,465,000	40,868,746	11%	681.77
2000	52,894 **	385,566,202	40,904,461	4,405,000	36,499,461	9%	690.05
2001	57,700	408,592,733	36,537,570	2,805,000	33,732,570	8%	584.62
2002	59,160	429,030,400	36,873,231	2,888,505	33,984,726	8%	574.45
2003	60,988	464,257,886	34,012,849	3,570,000	30,442,849	7%	499.16

(1) Arizona Department of Economic Security projected population increases except 1995 and 2000, which are official census figures.

(2) From County Assessors Office.

* 1995 Special Census.

** Census estimates exceeded actual 2000 census results.
FY2000 adjusted to reflect population per U.S. Census official results

Table XIII

City of Flagstaff, Arizona
Ratio of Annual Debt Service Expenditures for
General Bonded Debt to Total General Governmental Expenditures
Last Ten Fiscal Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Expenditures	Ratio of Debt Service to General Expenditures (Percent)
1994	\$ 3,585,000	\$ 2,986,494	\$ 6,571,494	\$ 34,069,538	19.29%
1995	4,270,000	2,937,532	7,207,532	38,220,225	18.86%
1996	3,595,000	2,612,598	6,207,598	35,742,952	17.37%
1997	4,371,000	2,660,912	7,031,912	38,110,976	18.45%
1998	4,170,000	2,826,759	6,996,759	43,610,081	16.04%
1999	4,465,000	2,516,329	6,981,329	45,156,409	15.46%
2000	4,405,000	2,242,254	6,647,254	54,107,289	12.29%
2001	2,805,000	1,953,098	4,758,098	52,523,698	9.06%
2002	2,979,000	1,443,074	4,422,074	68,918,699	6.42%
2003	3,679,000	1,373,322	5,052,322	66,304,475	7.62%

Table XIV

**City of Flagstaff, Arizona
Computation of Direct and Overlapping Debt
June 30, 2003**

The general obligation debt of all local governmental units which provide services within the City's boundaries, and which must be borne by properties in the City (commonly called overlapping debt), is summarized below:

<u>Governmental Units</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to the City</u>	<u>Direct and Overlapping Debt</u>
City of Flagstaff	\$ 30,442,849	100.0%	\$ 30,442,849
School District #1	48,210,000	65.0%	31,336,500
			<u>\$ 61,779,349</u>

Table XV

City of Flagstaff, Arizona
Schedule of Water and Wastewater Revenue Bond Coverage
Last Ten Fiscal Years

Fiscal Year	Gross Revenues	Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1994	\$ 14,719,682	\$ 6,991,300	\$ 7,728,382	\$ -	\$ -	\$ -	\$ -
1995	14,916,620	7,097,153	7,819,467	-	-	-	-
1996	16,475,146	7,136,236	9,338,910	-	-	-	-
1997	16,515,478	7,973,540	8,541,938	-	-	-	-
1998	16,767,650	7,916,657	8,850,993	-	-	-	-
1999	16,773,884	7,700,535	9,073,349	-	-	-	-
2000	17,606,349	8,311,186	9,295,163	-	-	-	-
2001	18,337,310	9,757,448	8,579,862	-	-	-	-
2002	17,637,708	9,587,743	8,049,965	-	-	-	-
2003	16,769,463	9,865,571	6,903,892	238,431	17,741	256,172	26.95

Table XVI

City of Flagstaff, Arizona
Demographic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (1)	School Enrollment (2)	Unemployment Rate (3)
1994	50,774	11,727	7.9%
1995	52,701	11,880	6.6%
1996	53,966	11,826	6.1%
1997	55,885	12,679	6.5%
1998	58,145	13,249	6.6%
1999	59,945	12,880	6.6%
2000	52,894	12,682	5.2%
2001	57,700	13,969	4.8%
2002	59,160	13,566	5.1%
2003	60,988	12,905	5.8%

(1) Arizona Department of Economic Security estimated projected population except for the years, 2000, which are official census figures and 1995, which represent the special census figures.

(2) Arizona Department of Education and National Center for Education Statistics.

(3) Arizona Department of Economic Security.

Note: Annual per capita income, median age, and education level data are not available.

Table XVII

City of Flagstaff, Arizona
Property Value, Construction, and Bank Deposits
Last Ten Fiscal Years

Fiscal Year	Residential Construction (1)		Commercial and Industrial Construction (1)		Quarterly Bank Deposits Coconino County (\$000) (2)	Property Value (3)			
	Number of Permits	Value	Number of Permits	Value		Estimated Cash Value	Commercial	Residential	Nontaxable
1994	465	\$ 25,187,262	118	\$ 2,597,561	\$ 448,839	\$ 1,833,875,883	\$ 751,566,336	\$ 970,906,145	\$ 111,403,402
1995	488	46,305,342	181	15,953,231	464,764	1,929,201,462	768,914,972	1,041,012,663	119,273,827
1996	564	68,880,721	169	24,418,924	462,848	2,170,269,429	818,081,181	1,205,903,371	146,284,877
1997	513	58,580,988	198	39,495,278	347,956 *	2,219,561,893	832,894,205	1,238,946,076	147,721,612
1998	528	45,783,140	182	33,570,116	482,770	2,458,001,305	849,315,340	1,446,181,407	162,504,558
1999	524	78,015,349	183	35,999,041	458,285	2,644,019,764	867,782,208	1,609,395,170	166,842,386
2000	586	46,399,420	122	43,592,693	460,217	2,813,033,675	930,939,338	1,698,835,707	183,258,630
2001	550	50,615,526	127	35,722,301	490,905	2,991,862,619	992,147,419	1,795,884,090	203,831,110
2002	758	69,026,395	152	43,642,285	615,806	3,134,105,000	1,037,581,165	1,886,615,936	209,907,899
2003	743	67,267,554	170	38,865,819	881,222	3,329,380,591	1,072,502,563	1,997,820,625	259,057,403

(1) City Building Department.

(2) Arizona Bankers Association.

This represents deposits in the 2nd quarter of the fiscal year for banks which reported.

(3) Abstract published by the Arizona State Department of Revenue.

* Number is exclusive of one large non-participating financial institute in Coconino County.

Table XVIII

**City of Flagstaff, Arizona
Miscellaneous Statistics**

Date of Incorporation – 1894		Employees as of June 30, 2003		Elections	
		Merit System	557	Number of Registered Voters	
Date First Charter Adopted		Exempt	115	Last Municipal Election May 2002	24,167
October 3, 1958		Temporary	205	Number of Votes Cast	
		Elected Officials	7	Last Municipal Election May 2002	8,381
Date Present Charter Adopted		Total Payroll for the Year Ending 2003: \$ 31,085,609		Percentage of Registered Voters	
June 29, 1998				Voting in Last Municipal Election	34.70%
Form of Government		Fire Protection		Parks and Recreation	
Council, City Manager		Number of Stations	6	Number of Developed Parks	28
		Number of Employees (FTE)	97	Number of Un-developed Parks	4
Area – Square Miles		Police Protection		Park Acreage	703.94
2003	64.400	Number of Employees	150	Flagstaff Urban Trail System–Miles	28.17
Miles of Streets, Alleys and Sidewalks		Number of Calls for Service per		Number of Other Facilities:	
Streets	208.72	Annual Report–12/31/02	55,625	Recreation Centers	5
Alleys	10.15	Ave. Patrol Officers for 24 hour period	18	Tennis Courts	17
Sidewalks	146.59	Vehicular Patrol Units	26	Racquetball Courts	5
Miles of Sewer		Coconino County Jail Prisoner Capacity		Ramadas	11
Storm	40.20			Softball/Baseball Fields	17
Sanitary	235.23	Pulliam Airport		Ice Rinks	1
Number of Street Lights		Fixed Base Operators	1	Playgrounds	20
	2,921	Locally Based Aircraft	130	Skate Tracks	2
Number of Fire Hydrants		Tiedowns	49	Soccer Fields	4
	2,478	Enclosed Hangars	42	Disc Golf Course	1
Number of Manholes		Open Hangars	38	Basketball Courts	19
	6,097			Volleyball Courts	6
Other City Buildings				Horseshoe Courts	12
	37			Off Leash Areas–Bark Parks	2
Includes City Buildings in Addition to Fire				Swimming Pools (School Owned)	2
Stations and Recreation Buildings					

Table XVIII (continued)

City of Flagstaff, Arizona
Miscellaneous Statistics

Education			Sales Tax		Population	
Number of Schools:			Retail Sales Last 15 Fiscal Years:		Census Population Count--Last Five Censuses:	
Public Elementary	12		2003	\$ 1,458,775,346	2003**	60,988
Public Middle School	2		2002	1,404,232,492	2002**	59,160
Public High School	3		2001	1,324,735,136	2001**	57,700
Alternative Schools	3		2000	1,238,195,104	2000	52,894
Magnet Schools	1		1999	1,117,197,604	1995*	52,701
Charter Schools	10		1998	1,065,133,746	1990	45,854
Private Schools	7		1997	1,016,570,260	1985*	38,247
Community College (Coconino)	1		1996	965,100,588	1980	34,743
University (Northern Arizona)	1		1995	905,801,130	*Special Census	
			1994	867,566,687	**Estimate	
			1993	776,546,307		
Number of Teachers (Fall 2002):			1992	686,784,204	2000 Census Information:	
Flagstaff Unified School District	924		1991	659,778,700	Age Distribution of Population	
Northern Arizona University Faculty	698		1990	631,835,742	for Urbanized Areas Only	
Coconino Community College Faculty	275		1989	595,358,235	1-4 Years	3,546
			Total Sales Tax Revenue for Fiscal Year 2003		5-17 Years	9,288
Number of Students (Fall 2002):				\$ 11,679,853	18-24 Years	11,487
Flagstaff Unified School District	11,349				25-44 Years	16,111
Charter	1,131				45-64 Years	8,309
Private	425				65+ Years	4,153
Northern Arizona University			Utility Enterprise			
Flagstaff Campus	13,906		Total Active Accounts on June 30, 2003			
All Locations	19,907		Water	16,948		
Coconino Community College			Sewer	16,518		
Flagstaff Campuses (2)	3,131		Average Gallons/Household/Month	6,070		
All Locations	3,816				Number of Housing Units	21,396
			Plants Capacity (Million Gallons per Day):		Average Persons per Housing Unit	2.59
			Water Treatment Plant	7.2	Average Family Size	3.13
			Reservoir Filtration Plant	3	Median Household Income	\$ 37,146
			Wildcat Hill Plant	6	Per Capita Income (2000)	\$ 18,637
			Rio de Flag Reclaim Plant	4		
			Wells	24	2000 Census information available at the following websites:	
			Reservoirs	8	http://www.census.gov/census2000/states/az.html	
			Reclaimed Reservoirs	1	http://www.de.state.az.us/links/economic/webpage/index.html	
			Miles of Water Lines	357.29		
			Miles of Reclaimed Lines	14.77		
			Miles of Sewer Lines	235.23		

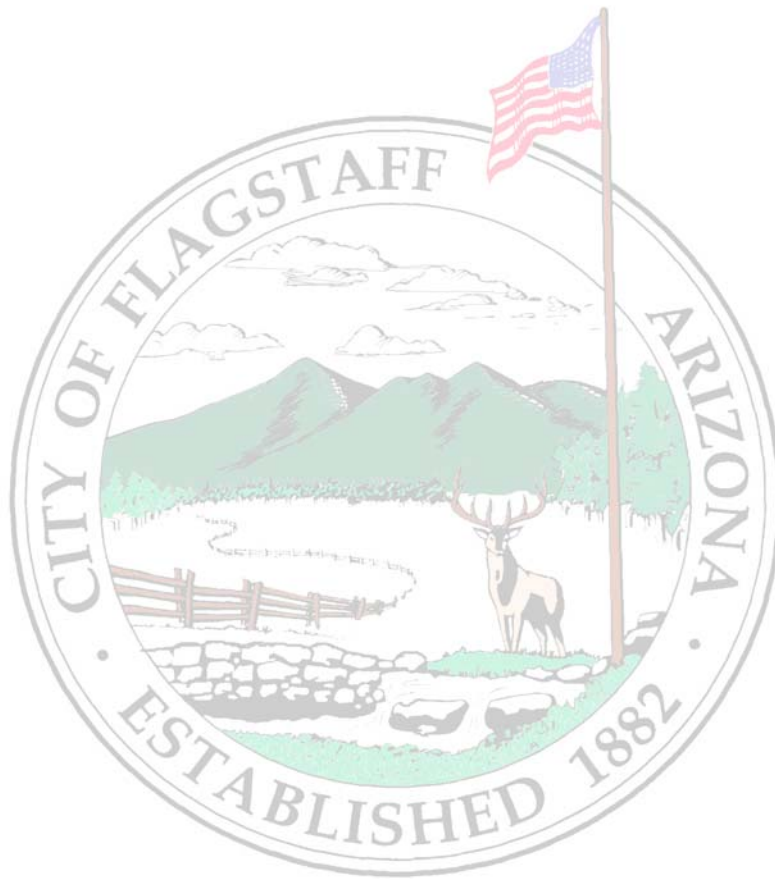
Table XIX
City of Flagstaff, Arizona
Intergovernmental Revenue by Source
Last Ten Fiscal Years

Fiscal Year	State Sales Tax	State Income Tax	County Auto In-Lieu Tax	Highway User Tax	Local Transportation Assistance	State HB 2565	Federal Grants	State Grants & Other State	County Library District Funding	Other	Total
1994	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
1995	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
1996	\$ 3,734,332	\$ 3,553,021	\$ 1,355,828	\$ 5,700,737	\$ 364,931	\$ -	\$ 360,439	\$ 115,134	\$ 911,354	\$ -	\$ 16,095,776
1997	3,845,330	4,170,641	1,504,060	5,852,957	366,453	-	694,916	380,042	890,097	-	17,704,496
1998	4,061,346	4,725,837	1,533,501	5,371,446	394,318	-	1,448,951	553,963	955,342	35,000	19,079,704
1999	4,353,556	5,489,912	1,847,142	7,207,158	367,911	-	1,763,054	272,297	1,101,729	218,384	22,621,143
2000	4,785,424	6,062,290	1,902,188	7,427,210	367,461	312,249	1,474,751	370,391	1,068,817	3,007,336	26,778,117
2001	4,919,575	6,432,879	1,913,662	7,969,703	360,806	142,793	1,731,823	317,059	1,835,109	580,241	26,203,650
2002	4,076,034	5,526,159	1,803,900	7,771,416	300,246	47,598	2,348,793	437,543	1,423,105	274,091	24,008,885
2003	4,136,724	5,557,918	2,378,466	7,408,116	315,026	-	1,743,613	823,701	1,607,306	850,000	24,820,870

Table XX

City of Flagstaff, Arizona
Insurance Summary
In Effect June 1, 2003 to May 31, 2004

Coverage	Limit of Liability	Coverage	Limit of Liability
Liability Insurance:		Property Insurance:	
General Liability*	\$ 1,000,000 / per occurrence	Blanket Building and Contents, including light and signals	\$ 95,866,723 / \$25,000 deductible
(Includes 2 Skateboard Parks)	\$ 2,000,000 / aggregate	Flood Zones B and C	\$ 10,000,000 / \$25,000 deductible
Law Enforcement Liability*	\$ 1,000,000 / each wrongful act	Earthquakes	\$ 10,000,000 / \$25,000 deductible
	\$ 1,000,000 / aggregate	Flood Zone A Properties	
Auto Liability*	\$ 1,000,000 / each accident	Municipal Court	\$ 220,000 / building
Public Entry Management Errors and Omissions*	\$ 1,000,000 / each claim		\$ 116,900 / contents
(Claims Made Retro Date 6-1-95)	\$ 1,000,000 / aggregate	City Hall, Library	\$ 500,000 / each building
Employment Practices Liability*	\$ 2,000,000 / each wrongful act		\$ 500,000 / contents each
(Claims Made Retro Date 6-1-95)	\$ 2,000,000 / aggregate		(\$5,000 deductible)
Healthcare Professional (for EMTs)*	\$ 2,000,000 / each person	Contractors Equipment (actual cash value)	\$ 6,292,799 / \$5,000 deductible
(Claims Made Retro Date 6-1-95)	\$ 2,000,000 / aggregate	Computer Equipment and Peripherals	\$ 5,818,610 / \$1,000 deductible
Employee Benefits Liability*	\$ 1,000,000 each employee	Computer Data and Media	\$ 500,000 / \$1,000 deductible
	\$ 3,000,000 aggregate	Laptops and Portables –	
* Liability Claims are Subject to a \$50,000 Self Insurance Retention		Replacement Cost Coverage	\$ 248,500 / \$1,000 deductible
Employer's Liability	\$ 1,000,000 / each accident	Fine Arts Exhibition Floater	\$ 25,000 / each location
	\$ 1,000,000 / disease employee	City Hall, Visitor Center, Airport Terminal	\$1,000 deductible
	\$ 1,000,000 / disease policy limit	Boiler and Machinery	\$ 25,000,000 / \$5,000 deductible
Worker's Compensation	Statutory		
Excess Liability #1 Following Form Over General Liability, Auto, Law Enforcement, Public Entity Management, Employee Benefits Liability	\$ 10,000,000 / each occurrence	Crime:	
Wrongful Act / aggregate		Blanket Public Employees and Treasurer	\$ 1,000,000 / \$5,000 deductible
(Excludes Employment Practices and Healthcare Professional)		Dishonesty Bond Including Faithful Performance of Duty	
Excess Liability #2 Following Form Over Excess Liability # 1		Computer Fraud	\$ 250,000 / \$5,000 deductible
Excluding Discrimination, Employment-related	\$ 15,000,000 / each occurrence	Theft, Disappearance, & Destruction	
Practices, and Failure to supply.	Wrongful Act / aggregate	(Inside and Outside)	\$ 5,000 / \$500 deductible
		Aviation:	
		Products/Completed Operations Liability,	\$ 30,000,000 / each occurrence
		Contractual, Construction & Demolition	\$ 30,000,000 / aggregate
		Hangar Keepers Liability	\$ 30,000,000 / each aircraft
			\$ 30,000,000 / each occurrence





They don't make towns like this anymore.

www.flagstaffarizona.org



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86001